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Canada: Railways and Transportation,
Royal Commission on,
1931/32

(ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION)

REPORT OF PROCEEDINGS

VOLUME IV

OTTAWA, FEBRUARY 15-20, 1932

Pages 1801 to 2545

Arthur Moxon, Esq., K.C., Secretary

George W. Yates, Esq., Assistant Secretary

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ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

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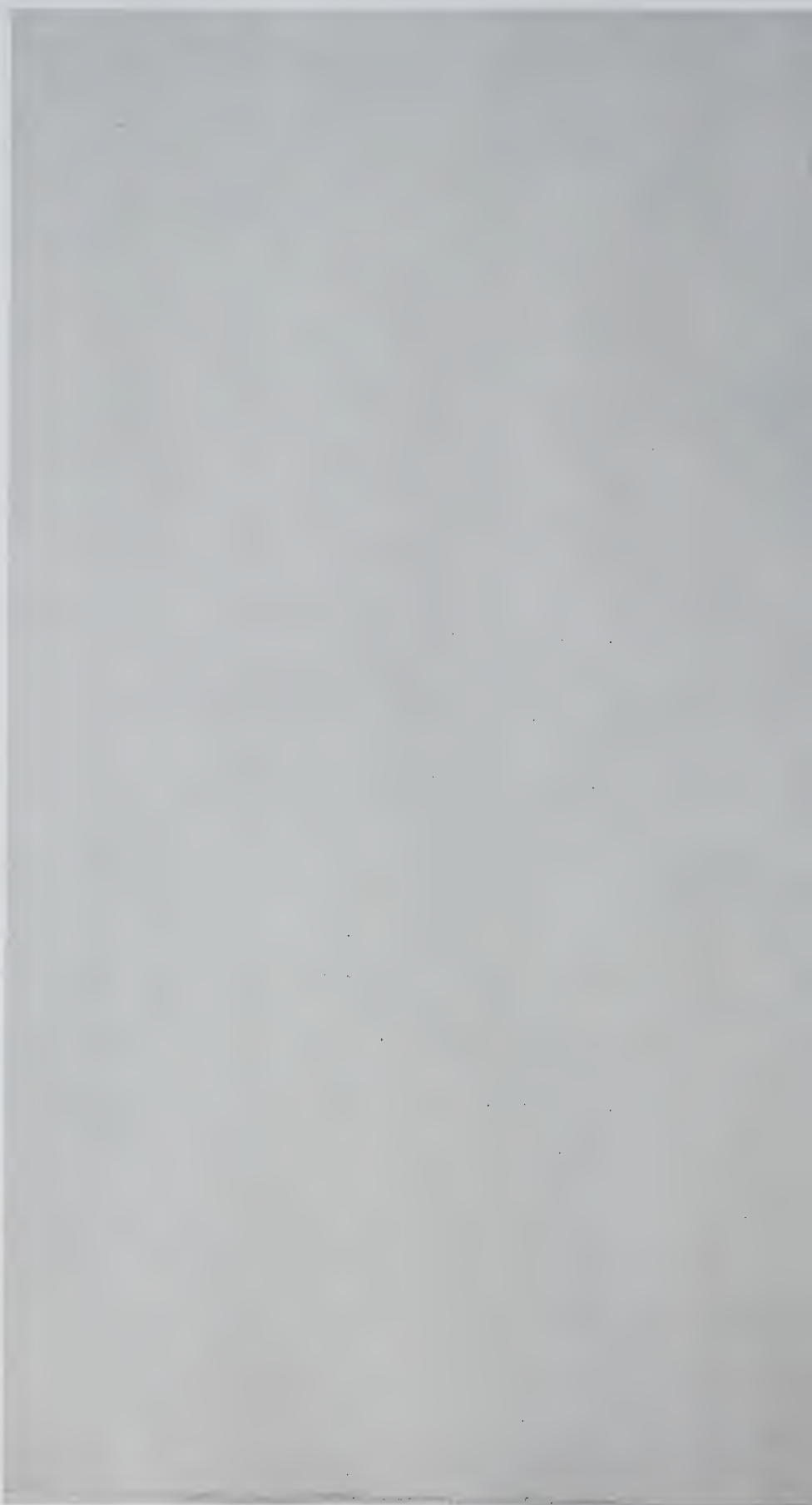
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ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met at the Parliament Buildings, Ottawa, on Monday, February 15, 1932.

PRESENT:

RIGHT HON. LYMAN POORE DUFF, P.C. Chairman

SIR JOSEPH FLAVELLE, Bart.)	
)	
BEAUDRY LEMAN, Esq.)	
)	Commissioners
LEONOR FRESNEL LOREE, Esq.)	
)	
WALTER CHARLES MURRAY, Esq.)	
)	
JOHN CLARENCE WEBSTER, Esq.)	

Arthur Moxon, Esq., Secretary

George W. Yates, Esq., Assistant Secretary

Representations were made to the Commission by:

Thomas Vien, K.C., Canadian Electric Railway Association

(Appearing with Mr. Vien -

George E. Waller, Vice President			
George S. Gray, Special Representative			
Eustace Smith, Jr., Secretary			
D.W. Harvey, Member Executive Committee			
H.W. Mallinson,	"	"	"
F.D. Burpee,	"	"	"
O.S. Byer)

R.J. Tallon, on behalf of railway labour

G.R. Pawson, Commercial Telegraphers Union

A.R. Mosher, Canadian Brotherhood of Railway Employees

M.M. Maclean, Secy. " " " "

M.J. Patton, Automotive Transportation Association of Ontario.

Parliament Buildings, Ottawa,
Monday, February 15, 1932.

AFTERNOON SESSION

The Commission met at 2.30 p.m.

THE CHAIRMAN: Colonel Vien.

MR. THOMAS VIEN, K.C. (Canadian Electric Railway Association): Mr. Chairman and members of the Commission: The members of the Canadian Electric Railway Association, whom I have the honour to represent, have noted that under Order in Council P.C. 2910 of the 20th of November, 1931, your Royal Commission is directed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and probable future developments of the country, and report their conclusions and make such recommendations as they think proper.

Our desire in presenting our statement to the Commission is to offer such facts and suggestions as can best help you in the discharge of your duties.

It is not without a great deal of apprehension that we have noted during the last few months a persistent campaign carried on by newspapers and representatives of the railroad companies in public utterances against the motor coach and motor bus industry, complaint being often made that this industry is ruining the railroad by its competition, which is referred to as being unfair, discriminatory, cut-throat or subsidized.

It was also often suggested by some of these proponents that the railways should be protected against

this ruinous competition by the assessment of heavy taxation on the motor coach and motor bus industry, which should also be subjected to onerous restrictions and regulations. We felt, therefore, somewhat comforted when on the 25th of January of this year we received from Mr. Yates, your assistant secretary, a brief summary of the suggestions which had been received thus far by your Royal Commission as regards motor bus and truck traffic and the taxation that should be imposed. We noted from the summary that in some cases attention has been given only to securing from these common carriers what may be deemed a fair contribution to highway maintenance and construction. Mr. Yates says:

"In general, the proposals before us in so far as they have any common principles at all, may be said to comprise:

- (a) A requirement that common carrier busses and trucks should pay a registration fee as all private motor cars and trucks based on size or weight for potential use of highways.
- (b) A requirement that there shall be gasoline taxes giving a return to the state on actual use of the highways to be paid by all motor vehicles.
- (c) A requirement that common carriers using the highways for carrying on business for private gain shall pay additional taxes either on gross income, or on rated capacity, or on ton miles or vehicle miles so that there may be some return for the privilege of using public highways as a right-of-way.

The total return from public and private vehicles to be budgeted so as to provide maintenance for motor highways and a return of capital."

It was freely suggested that the railways had to invest their own money in their undertaking, while the

bus or motor car competitor got the benefit of a free highway, a free right-of-way, the public having paid for the highway which they use. With regard to the suggestion that the total return from public and private vehicles be budgeted so as to provide maintenance for motor highways and a return of capital, we desire to draw the attention of your Royal Commission to one or two fundamental facts, which are the basis of the statements which I am about to submit to you. In the first place, this particular statement of the railways or their representatives or agents in the press is inaccurate. If you refer to the steam railway statistics of 1925 or 1930, and the report on the Canadian National Railways prepared by the Dominion Bureau of Statistics -- all of which documents are before your Commission, but all of which we are going to submit to you with our statement with a view to facilitating your references -- you will find that far from having paid for their right-of-way out of their own money, the railways have thus far received out of the public exchequer \$222,000,000; that they have received land grants amounting to more than 43,000,000 acres; that they have received loans, the return of which to the government it is too optimistic to expect, to the amount of \$604,000,000, bond guarantees amounting to \$854,000,000, and appropriations for Canadian government railways amounting to \$403,000,000. Yet the suggestion is now made that the total return from public and private vehicles be budgeted so as to provide maintenance for motor highways and a return of capital. No suggestion is made that the railways should be called upon to return anything to the government in respect of the large expenditures of money which the country has in-

vested in their undertaking. Therefore we believe it is appropriate to set before your Commission these few facts as clearly as possible before we begin to make our statement, particularly with respect to the erroneous impression evidently held by some that the highway is a free right-of-way for the motor whereas the railway has to pay for and maintain its own right-of-way.

Now sir, to proceed with the preamble of our submission:

It is the intention of the Canadian Electric Railway Association to place before the Royal Commission on Railways and Transportation the salient features of electric railway operations in the Dominion of Canada, and briefly to sketch the history and development of urban, suburban and interurban electric railways, and the development of the motor bus and the motor coach by the electric railway industry. It is proposed to show the economic necessity for the utilization of the motor bus by the railways in the above mentioned services and the benefits derived by the communities served. It is proposed to show the type of business and volume of traffic handled by the motor bus and the motor coach, and that the bus and coach are negligible competitors of the steam railroads; also that the operations of these vehicles are highly regulated by governmental enactments. Figures will be furnished the Commission which will prove beyond the question of a doubt the efficiency of the motor bus and the motor coach in certain transportation services; further, that no additional highway capital or maintenance costs have

been incurred by their operation. It is also proposed to show that there is no economic justification for further increase in motor coach taxation.

I. - Introduction:

(a) Status and Constitution of the Canadian Electric Railway Association --

The Canadian Electric Railway Association is a voluntary association of corporate companies and public commissions operating electric railways and motor bus and motor coach services in the Dominion of Canada. Organized in 1904 for the purpose of collecting and distributing information relating to the construction and operation of electric railways, the Association has functioned during the past twenty-seven years as the representative of the Canadian electric railway industry authorized to deal with matters pertaining to the industry at large and its relations with the public (Constitution and By-laws, Exhibit 1).

Membership in the Association is held by forty-five of the fifty-three electric railways reported by the Dominion Bureau of Statistics as operating in Canada in 1930. The remaining eight are small companies, each operating not more than five cars and ten miles of track. The assets of member companies represent over 97 per cent of the total assets of the electric railway industry in the Dominion. Further, Association members carried over 98 per cent of the total number of revenue passengers carried by all electric railways in the year 1930 and operated over 97 per cent of the total car mileage. The Association therefore represents transportation undertakings which, as a group, operate the

largest agency for land transport in Canada, apart from the steam railroads.

(b) Reasons for Submission of Statement --

Having in mind the extent of electric railway operations in Canada, the Association felt that a statement outlining these operations might be of interest and assistance to the Royal Commission on Railways and Transportation in its consideration of the general transportation situation throughout the Dominion. The Association desired also to record the significant facts of recent transportation developments directly affecting the operations of its members, and the population which they serve, including the utilization by electric railways of the motor vehicle. Further, as the official mouthpiece of the electric railway industry in Canada the Association desired to place before the Royal Commission its views on matters involving the interests of that industry and the interests of other transportation agencies who have already made representation to the Commission.

Should further information be required touching on matters discussed in this statement or on any phase of the operations of the Association's members, the Association will be glad to place all its facilities for the collection of such information at the disposal of the Commission.

II.- Scope of Electric Railway Operations
in Canada

Detailed information covering the operations of electric railways in Canada is contained in the publication issued by the Dominion Bureau of Statistics,

"Statistics of Electric Railways of Canada", for the year ending December 31st, 1930, (Exhibit 2) and in the Association's publication, "Electric Railway Statistics", for the year 1930 (Exhibit 3). As of December 31st, 1930, the fifty-three properties represented an investment in road and equipment of \$240,293,973. As of the same date total capitalization was \$224,089,000, consisting of bonded obligations to the extent of \$171,040,000 and capital stocks of \$53,049,000. Gross earnings from operations in 1930 totalled \$54,719,000, and aggregate net income after taxes and fixed charges was \$10,007,000.

These figures are given to show the importance of the Canadian Electric Association and of its members, and to emphasize the fact that these interests could not be brushed aside or jeopardized without serious injury to the public.

As of December 31st, 1930, the fifty-three railways operated 2,367 miles of single track. Rolling stock included 4,060 passenger cars, 616 motor buses and coaches, 516 freight cars, 587 miscellaneous cars and 53 electric locomotives. This equipment served a population of over 4,000,000.

During 1930 revenue passengers carried totalled 792,701,000.

Salaries and wages paid during 1930 totalled \$26,954,000, and at December 31st of that year employees numbered 18,340.

Which shows that this lawful and legitimate interest is representative of the various interests at stake, and that

they cannot be lightly touched or disturbed without serious injury to the public.

III.- Historical

(a) Evolutionary Changes in Transportation in Canada --

Historical evolution of transportation in Canada may be said to have followed three main trends. During the early years of the country's settlement the principal channels of communication were the waterways. As the population increased and settlement progressed inland from the waterways, there followed a natural development of highways which for a time served as feeders for the water routes. Highway development became so extensive, however, particularly in the older settlements of the Maritime Provinces and Quebec and later in Ontario, that by the early years of the last century the post road with its stage coach had largely supplanted the waterways for the handling of passenger traffic. By 1841 there were, in Ontario, for instance, 6,000 miles of post roads on most of which regular stage coach routes were operated.

Then followed the railroad era, which may be said to have begun in 1851 with the commencement of a line between the two central provinces of Quebec and Ontario. As railroad building progressed at an increasingly rapid rate, the stage coach as a long distance passenger carrier gradually disappeared and the highway once more was relegated to the role of a feeder route. For some sixty years the steam railroad maintained its place as the principal carrier of both freight and passenger traffic practically unchallenged. Then followed the

introduction of the motor vehicle and the consequent stimulus to highway construction, which during the past twenty years has once more raised the highway to a position of major importance in the general transportation scheme.

From this brief summary it will be seen that the remarkable growth of motorized travel during the past two decades and the consequent transfer of an increasing volume of passenger traffic from the steam railroad to the private motor vehicle operating on the highway has a historical parallel in the displacement of the stage coach by the steam railroad.

(b) Development of Urban, Suburban and Interurban
Transportation in Canada --

Changes in urban, suburban and interurban traffic have more or less paralleled the changes in long distance transportation since the first appearance of the highways. The first urban passenger common carrier used in Canada was the horsedrawn omnibus. This was superseded by horse car railways as early as 1861 - the cities of Montreal and Toronto having adopted this method of transportation in that year. Horse car systems in turn were replaced by electric railway systems, the first of which was opened at St. Catharines, Ontario, in 1887. This was followed by the inception of the Ottawa Electric Railway in 1891 and the electrification of the Montreal and Toronto systems in 1892. Electrification proceeded in the other principal eastern Canadian cities during the early nineties and by 1897 there were in operation thirty-five companies represent-

ing a capitalization of \$18,727,000. Aggregate capitalization was rapidly augmented during the subsequent fifteen years with the construction of additional systems in the newer cities of western Canada, the total having reached \$111,532,000 by 1911.

On the basis of the 1930 returns there were in the Dominion twelve systems carrying 10,000,000 or more passengers per year. These were located in Montreal, Toronto, Vancouver and district, Winnipeg, Hamilton, Ottawa, Quebec, Calgary, Windsor and district, Edmonton, London and Halifax, and they handled 90 per cent of the total passengers carried by all roads.

In the cities of Quebec and the Maritime Provinces the systems are generally operated by private companies under city franchises, while in a considerable number of cities in Ontario and western Canada they are owned and operated by the municipalities.

Utilization of the motor vehicle in city and suburban services commenced in 1918, and by 1921 three companies were operating thirteen motor buses. By 1931 the total number of motor buses operated in conjunction with city systems had increased to 413, distributed among sixteen cities.

Construction of interurban electric lines commenced in Ontario in 1891 and continued at intervals over a period of some twenty-five years. Development of this type of facility was concentrated principally in the Toronto, Niagara and Lake Erie districts of Ontario and on the Pacific coast, and to a lesser degree in the areas contiguous to Quebec, Montreal and Winnipeg. At the close of the war there were in operation in Canada

twenty-seven interurban electric lines but this number has been largely diminished during the past ten years, a result of abandonments due to the competition of the private passenger automobile. Coincident with this decline in the operation of interurban electric lines there has been during the past decade a rapid increase in the utilization of the motor coach in interurban services operated by electric railways. By the close of 1931 eleven electric railways were handling interurban passenger traffic with 379 motor vehicles of this type.

The significance of the rapid growth in the use of the motor bus and motor coach by electric railways will be discussed in detail in section VI.

IV. - Effect of Motor Vehicle Competition on Electric Railway Operations

(a) Effect on Urban and Suburban Services - -

Prior to 1920 the effects of motor vehicle competition on electric railway operation in Canada were of a relatively minor nature. Since 1920, however, such competition has been a very serious problem for electric railway operators in all parts of the Dominion.

Examination of the accompanying chart showing the trend of revenue passenger traffic on all electric railways in the Dominion, set against the trend of motor vehicle registration (Chart No. 1), clearly reveals the effects of this competition. During the period 1910 to 1920 aggregate annual revenue passenger handlings of all electric railways increased by 123 per cent, the total for 1910 having been 360,964,000 and that for 1920, 804,711,000. Since 1920 the general trend

has been slightly downward, total passenger traffic having exceeded the figure established in that year in only two of the ten years 1921 to 1930. This reversal of trend can be attributed only to increased use of the motor vehicle, registrations of which advanced from 407,064 in 1920 to 1,239,000 in 1930, an increase of more than 200 per cent. In two representative cities, namely, Toronto and Montreal, there were in 1920 19.2 persons and 60 persons, respectively, per automobile; whereas in 1930 there were in Toronto 6.3 persons per automobile and in Montreal, 12.

A further significant factor is revealed by an annual traffic census made in Toronto by the Toronto Transportation Commission. Between 1923 and 1930 registration of private passenger automobiles in that city increased by 112 per cent, whereas the volume of private passenger automobile traffic as recorded by autumn and spring traffic counts increased by 158 per cent and 216 per cent, respectively. In other words, not only the number of private motor cars but the frequency of their use by the individual owner has shown a marked upward tendency. Successful operation of street railways in the face of the competition indicated by these figures presents problems of obvious difficulty.

(b) Effect on Interurban Electric Services --

The impact of private motor vehicle competition on established transportation agencies has nowhere been more marked than in the field occupied by the interurban electric railways. Examination of interurban

operating records for the past twenty years indicates that interurban passenger traffic reached its peak in 1920, since which year the decline has been so drastic as to result in the abandonment of a number of once profitable railway properties and the substitution of common carrier motorized services. It is sometimes stated that the motor coach has been a major factor contributing to this decline, but the Association wishes to stress the fact that utilization of the motor coach has been a negligible factor compared with the use of the private motor car.

Attention is directed to the accompanying chart showing the trend of revenue passenger traffic on six of the electric interurban lines in Ontario recently abandoned, plotted against motor vehicle registration in that province (Chart No. II). It should be pointed out by way of qualification that the sharp downward trend of passenger traffic during the years following 1920 was accelerated by the absorption of some trackage by connecting city systems, but such absorptions were by no means the dominant factor.

(c) Abandonments of Urban and Interurban Electric Railways in Canada Since 1924 --

During the last eight years no less than eight urban and eleven interurban electric railways in Canada have been abandoned because of their inability to cope with private motor vehicle competition. These abandonments have involved a writing off of a capitalization totalling \$19,148,000, or an amount equivalent to 8.5 per cent of the total electric railway capitalization in Canada as of 1930. Abandonment of trackage totalled

369.62 miles, a figure equivalent to 18 per cent of the total main line single track operated by all railways at the end of 1930.

THE CHAIRMAN: Are you ascribing these abandonments exclusively to the competition of the private motor?

MR. VIEN: Yes, my lord.

THE CHAIRMAN: It is your contention that the increase of the private motor car traffic coincides with the decline in the passenger revenue -- that is your premise, and the conclusion is based upon that premise?

MR. VIEN: Exactly.

THE CHAIRMAN: I wanted to be quite sure of that.

MR. VIEN: That is exactly it. There is no other known factor which could have brought that result about.

I think I need do no more than draw your attention, sir, to the table on page 9, which gives an enumeration of the urban and interurban electric lines which have been abandoned since 1924, showing the amount of capitalization, miles of track and the year of their abandonment.

In every case cited above -- both urban and interurban -- passenger traffic formerly carried by the electric lines is now handled by motorized services.

COMMISSIONER LEMAN: That is your argument -- that it is not merely a matter of coincidence, but that in every case the interurban traffic has been replaced by the motor vehicle.

MR. VIEN: Yes, that is our submission. In sparsely populated regions the motor bus or coach transportation is more appropriate and less expensive, and

in the more densely populated centres the electric railway is more appropriate.

It will be observed that all of the urban abandonments have been in cities of relatively small population where traffic density is comparatively low. Inasmuch as electric lines are still operated in a number of similar cities, it is probable that there will be further abandonments in the future with a consequent increase in the use of the motor bus as a common carrier for the handling of urban traffic. Attention is directed also to the fact that nine of the eleven abandonments of interurban lines have been in Ontario, which province has the highest registration of private passenger automobiles per capita, the provincial index being 6.8 persons per car as compared with an index of 9.5 for the Dominion as a whole.

SIR JOSEPH FLAVELLE: Does the fact that the electric railway provides its own roadbed as a fixed charge have any bearing upon the competition of the bus over the public highway?

MR. VIEN: I would hardly think so, sir.

SIR JOSEPH FLAVELLE: Have you made any estimate as to the taxes paid by the electric railway on account of its roadbed and through municipal imposts in comparison with those paid by the motor coach running over the public highways?

MR. VIEN: I am instructed that in most cases the electric railways pass over highways or streets under special agreements with the various towns or municipalities.

THE CHAIRMAN: Is that so in the case of the

Mr. Vien

interurban railway?

MR. VIEN: To a certain degree.

THE CHAIRMAN: To some extent?

MR. VIEN: To some extent. We have not prepared any statistics to satisfy your Commission on these points, but I think --

SIR JOSEPH FLAVELLE: Would you look into that? Because really the interurban is almost exclusively not on the streets of the towns but on the side of the public highway, where they have to put in their whole service.

MR. VIEN: I shall be pleased to look into that and to write to your Commission answering the points you have just raised.

SIR JOSEPH FLAVELLE: The Chairman just indicates that in British Columbia, for instance, the electric railway is almost entirely off the road, with a separate service of its own.

MR. VIEN: And it is also the case in Ontario and Quebec, in many instances.

THE CHAIRMAN: It is so here in Ottawa; the interurban operates almost exclusively outside of the highways once the municipal limits are reached.

MR. VIEN: But it is not true in all cases; I think you will find exceptions. I know that in the vicinity of Quebec there are interurban electric railways operated on public highways, and there are also interurban electric railways operated on their own right-of-way.

V.- Improved Efficiency of Electric Railway Operations

The Association desires to emphasize the fact

that its member companies have been quick to realize the necessity of improving both the physical and economic efficiency of their operations as a means to counteracting the adverse effects of constantly increasing motor vehicle competition. Utilization of modern types of rolling stock and modern track construction has resulted in a material increase in the speed of operation.

THE CHAIRMAN: Have you any statistics showing the financial condition of the companies who owned the lines that went out of business? Have you related abandonment of lines to the financial situation of the companies owning?

MR. VIEN: The only statistics which have been prepared are in respect of their capitalization. As to the results of their operations, we can, I think, easily give you that information. Figures bearing upon it will be found in the statistics of electric railways in Canada published by the Dominion Bureau of Statistics, so far as they go. But we shall be pleased to furnish that information.

Frequency of service has also been increased. The majority of the city systems have also been successful in maintaining relatively low rates of fare and in retaining the universal fare system, despite increases in the areas served. General improvement in operating efficiency is reflected in the trend of the ratio between gross earnings and operating expenses during the eleven year period 1920 to 1930, as indicated in the following table:

Year	Ratio of Operating Expenses to Gross Earnings - all Canadian Electric Railways
1920	79.16
1921	80.71
1922	72.47
1924	73.07
1928	69.71
1929	68.79
1930	71.50

Improvement in the ratio as between the years 1921 and 1922 was partially accounted for by increases in fares in some cities, but as the rate of fare has remained relatively constant since 1922 the improvement since that date is attributable to increased operating efficiency.

VI.- The Motor Bus as an Urban and Suburban Passenger Carrier

(a) Growth of Motor Bus Operation by Urban Electric Railways --

As already stated in the historical introduction to this statement, utilization of the motor bus by Canadian electric railways commenced in 1918 in Winnipeg, 1919 in Montreal, and in 1921 in Toronto, the three companies operating thirteen buses in the latter year. The initial experiments with this type of vehicle made in these three centres were so successful that its use soon became general in the larger cities of the Dominion. By the end of 1931, sixteen electric railways were operating 413 motor buses in conjunction with their urban and suburban services.

Detailed figures recording the growth in bus

passenger traffic in all sixteen cities during the eleven year period are not available but the general trend is indicated by the following summary of bus passengers handled by the Montreal and Toronto city bus systems:

Year	Urban Bus Passengers Carried	
	Bus Passengers Carried by Toronto Transportation Commission	Bus Passengers Carried by Montreal Tramways Company
1922	3,623,553
1925	4,483,026	1,026,000
1927	5,848,425	10,728,000
1931	10,287,733	20,680,000

(b) Reasons for the Increased Use of the Urban Motor Bus --

One of the primary reasons for the rapid increase in urban bus traffic indicated by the figures cited above has been the suitability of the bus for the handling of low density passenger traffic originating in the relatively sparsely populated districts on the outskirts of urban areas. Traffic from such districts is not of sufficient volume to warrant the construction of costly rail lines and power distribution facilities, yet provision of adequate, low cost transportation for such districts is essential to their development. Operating experience soon demonstrated that the bus was the ideal transportation agency in this field. Once established, its use in feeder line services of both city and suburban systems soon became standard practice.

In the majority of cities, buses operating on scheduled runs function as part of the universal fare

system. Reciprocal transfer privileges are granted between the bus lines and the street railway lines and the same rate of fare applies on both services. This coordination of rail and motorized facilities has in many cases been a factor of considerable importance in the maintenance of the universal fare system, with consequent advantages to the travelling public.

In any consideration of the place of the motor bus in the field of urban transport it should be borne in mind that a number of smaller cities formerly served by electric railways are now entirely dependent upon the bus for common carrier passenger transportation.

VII.- Electric Railway Operation of Interurban Motor Coach Services

(a) Development of the Interurban Motor Coach as a Passenger Carrier --

Evolution of the motor coach in Canada may be said to have begun with the appearance of the "jitney", which ran on no definite route or schedule, paid no fee or business tax, and the driver of which was responsible to no one but himself. From this type of vehicle it was but a short step to the truck fitted with a bus body.

Attempts were made to give a fairly dependable service with this type of vehicle, but it was not until after the close of the war that the first coach companies were formed and multiple coach operation commenced. Initial results of this method of operation were sufficiently successful to induce a mushroom-like growth of operating companies, many of which were short-lived

because of the inefficiency of their management and their failure to adopt sound methods of accounting. Individual failures, however, had little effect on the growth in traffic, and as demand increased there followed naturally a rapid improvement in the type of vehicle operated. The result was the appearance of the modern high-powered coach with its improved braking power, low centre of gravity and balloon tires, all of which have contributed to the safety, dependability and popularity of present day coach travel.

(b) Reasons for Entry of Electric Railways into Inter-urban Motorized Transportation Field --

Relatively early in the development of interurban motor coach services it became apparent that the new transportation agency threatened the stability of electric railway operation in many of the larger cities of the Dominion. Operation of independent bus lines over city streets paralleling existing electric lines resulted in diversions of traffic from the city systems which could not be ignored. It at once became obvious that were the electric railways to abandon the increasing volume of this profitable class of business to outside interests, the result would be not only serious losses in revenue but a gradual stifling of the city system.

That the electric railways were fully alive to the implications of the development is indicated by the report of the Bus and Coach Committee of the Canadian Electric Railway Association adopted by the Association in 1927:-

"It is becoming more and more apparent," stated the report,

"that the operations of automotive vehicles by the transportation agency of any given area should not be confined strictly to the geographical boundaries of such area. For the street railway system of a city to sit meekly by while others pre-empt all profitable interurban or suburban routes under conditions amounting in practice to perpetual franchises on such routes spells disaster in the long run to any such system. It involves a constantly increasing loss of local fares to such through-running buses, the creation of a network of outside franchises stifling and forbidding the normal growth of the local system and the occupancy by others of a field logically belonging to such system and necessary to the economical development of its urban services."

Still another pertinent factor was the fact that the decline in electric interurban passenger traffic had reached the point where it was becoming economically unsound to continue the operation of such lines.

In the light of all the circumstances there was but one logical source of action open to the electric railway companies, namely, participation in the interurban motor coach field. Such was the only course of action which would prevent loss of revenue due to the operations of independent bus operators on city streets, forestall creation of competitive franchise rights, offset electric interurban losses, and protect both the electric railways and the travelling public against the injurious effect of uneconomic competition.



(c) Extent of Interurban Motor Coach Operations by
Electric Railways --

Operation of interurban motor coach services by electric railways in Canada commenced in 1924, the pioneer railway in the field being the British Columbia Electric Railway Company, Limited. In most cases acquisition of the necessary franchise rights was by purchase from individual operators. The development proceeded at such a rapid rate that by the end of 1931 electric railways were participating in the operation of eleven companies using 379 interurban motor coaches distributed as follows:-

Name of Company	No. of Coaches
Brantford Municipal Railway Commission	2
British Columbia Electric Railway Co., Ltd. ...	17
Grand River Railway Company (Ontario)	4
Gray Coach Lines, Limited (Toronto)	120
Highway King Coach Lines (Hamilton)	83
Hull Electric Company	22
Levis Tramways Company	2
Niagara, St. Catharines & Toronto Railway	4
Provincial Transport Company (Montreal)	106
(Including City Sight-seeing)	
Quebec Railway, Light & Power Company	16
Winnipeg Electric Company	3
Total	<u>379</u>

The Association desires to draw attention to the fact that the electric railways in the five largest cities in Canada now participate in the operation of interurban motor coach services.



A map showing the motor coach operation of the Provincial Transport Company, Montreal, and its affiliated companies is presented as a typical example.

(Exhibit 4).

On this map, Exhibit 4, the lines established by the Provincial Transport Company are shown in red; the Champlain Coach Lines in blue; the Frontier Coach Lines in green; The Colonial Coach Lines Limited in yellow, and The Toronto Greyhound Lines in blue.

SIR JOSEPH FLAVELLE: Is there some degree of uniformity on the part of the governments of the various provinces in the matter of the charge for the use of the roads?

MR. VIEN: We come to that a little later on. If the information in that respect is not sufficient, I shall be glad if you will bring it to my attention.

COMMISSIONER LOREE: You have given us rather full figures with regard to a number of motor buses, but I see you have not given us any financial figures. Have you any such information, as to cost of operation, income, and so forth?

MR. VIEN: We have not that for the individual companies, but if it is the desire I think we can supply it.

COMMISSIONER LOREE: Of course figures do not mean anything unless they are connected up with the financial side.

MR. VIEN: If it is desired I think we can supply your Commission with information as regards the financial operations of these various companies.

COMMISSIONER LOREE: Have you the figures for

your own companies?

MR. VIEN: I think so.

THE CHAIRMAN: I suppose these companies are all members of your Association?

MR. VIEN: They are. We had it in mind that the figures with respect to our operating results would be of less interest to the Commission than the importance of the industry at large, the capital invested in it and the extent of the territory served by the services established. However, we can get the information.

COMMISSIONER LOREE: I make this suggestion: are the companies operated at a profit, or not? If they are not operated at a profit, then we may expect to see them disappear. Is the community to be left without any transportation?

MR. VIEN: We contend that the companies now operating, at least the largest and most reliable ones, are operating at a profit.

COMMISSIONER LOREE: Have you any figures to support that?

MR. VIEN: We have not given the figures in our statement, but they can be made available if that is your desire.

THE CHAIRMAN: Mr. Loree is speaking particularly, I think, of the services shown on page 14.

MR. VIEN: We have not given the figures.

SIR JOSEPH FLAVELLE: I think the figures with regard to Gray Coach Lines Limited were submitted at Toronto some weeks ago.

MR. VIEN: I know of a few of the lines which are enumerated there that are operating at a loss. One of

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them I am particularly familiar with, the Levis Tramways Company; but the interurban service of the Levis Tramway Tramways Company is linked up with the tramway service in the city of Levis, and it might be difficult to segregate the interurban operating figures from those of the urban operating figures. But if it is your wish, we shall supply, so far as we can make them available, the figures of their operating expense.

COMMISSIONER LOREE: As I understand your argument, it is that the interurban service has been destroyed by the introduction of the autobus service. Is the autobus service to be destroyed also because it does not pay, and is the community to be left without any transportation?

MR. VIEN: We simply say that the interurban electric railway has disappeared because of the operation of the interurban coach or bus service. It was the only way the electric railway companies could retain any part of that business, because it was a foregone conclusion that they could not, except at a heavy loss, meet that competition unless they adapted themselves to the new conditions.

COMMISSIONER LOREE: All right; suppose this does not pay, must it be supported philanthropically, or what?

MR. VIEN: If this does not pay, there are two alternatives: the charging of higher rates, which of course the public will have to pay; or their disappearance from the field. But I do not believe that the remedy suggested, that they should be more heavily taxed, would in any way meet the situation.

COMMISSIONER LOREE: I do not suggest that.

MR. VIEN: I know, sir; but I am referring to statements which have been made more than once.

(d) Advantages of Operation of Interurban Motor

Coach Services by Electric Railway Companies --

Previous to the entry of electric railways into the field of interurban motor coach transportation, coach lines radiating from the larger urban centres in Canada were largely in the hands of irresponsible operators, many of whom were not financially stable -- a factor seriously militating against the safety, efficiency and dependability of operation.

Present conditions in the coach services now maintained by electric railways are in marked contrast to those which formerly prevailed. Equipment has been fully modernized and dependable scheduled service is maintained on a high efficiency basis. There has also been a marked improvement in the conditions affecting labour, particularly in regard to stability of employment and maintenance of high wage standards.

A further advantage of the operation of interurban motor coach services by electric railways is the fact that it enables coordination of such services with motorized services operated in urban and suburban areas. Unified control permits a diversified use of operating equipment which is mutually beneficial to all three services. This results in lowered capital and operating costs, benefitting not only the transportation services but the travelling public.

An additional economic advantage of the coordination of urban and interurban motorized services under electric railway control is the fact that it results

in a reduction in both administrative and maintenance overhead costs. In many cases the management personnel of the two services is identical and vehicles operating in the two fields are serviced with the same maintenance facilities. Such a coordination is of obvious economic benefit to both services.

VIII.- Regulation of Motor Coach Services

(a) Governmental Regulations --

All motor coach operations in Canada are subject to specific regulation by direct governmental enactment. With minor exceptions in certain provinces, and excluding Prince Edward Island in which province motor coach operations are negligible, these regulations cover weight, size and speed of vehicles, inspection of equipment, compulsory public liability and property damage insurance, rates of fare, time tables, financial responsibility of operators, physical fitness and qualifications of drivers and hours of work of drivers. I think this, sir, should answer Sir Joseph Flavelle's query. We have with us copies of the regulations of the various provinces, and if it is of interest to the Commission we might file them. We do not wish, however, to burden your records needlessly.

COMMISSIONER WEBSTER: Are they generally as stringent as the rules and regulations for railway operators?

MR. VIEN: They vary, sir, but I think that can be said of the regulations in force in Quebec and Ontario. I would not venture to make the same statement of other provinces, but I could easily ascertain that. I am instructed that it is pretty well so through the country.

SIR JOSEPH FLAVELLE: My query was not directed so much to the regulations as to the financial charge resting upon the suburban electric railway supplying its own roadbed as compared with the charge upon the motor coach which does not supply any roadbed but pays its share of taxation.

MR. VIEN: I suggest that the interurban services which Sir Joseph has in mind have pretty well passed out of the picture now.

SIR JOSEPH FLAVELLE: I know that, but I am anxious to know why they passed out. Some people say the railway will pass out because it has a competitor who is not on the same basis. Is the railway to follow the interurban road?

MR. VIEN: I hardly think so, sir, for the very good reason that the railways fulfil a requirement that cannot be met even by the bus.

THE CHAIRMAN: The point of Sir Joseph's question was, why did they pass out. Your explanation, I gather, is that the competition of the private motor car destroyed them.

MR. VIEN: That is our submission.

THE CHAIRMAN: But we would like to have the material which would enable us ---

MR. VIEN: To reach that conclusion?

THE CHAIRMAN: Oh no; the material which would enable us to ascertain the charge in the case of the motor bus, in the way of license fee or otherwise.

MR. VIEN: I will touch upon this a little later in my statement. If I do not fully answer your question, I shall be glad if your lordship will draw my atten-

tion to it.

THE CHAIRMAN: I was under the impression you had come to it -- you spoke of regulations. I understood you to say you had the regulations for all the provinces, brought down to date. It would perhaps be convenient for us to have them. Will you give them later to Mr. Yates?

MR. VIEN: Yes, Mr. Chairman.

Weight of coaches is restricted in all provinces, except Manitoba and Alberta, the maximum allowance varying from 12,000 pounds to 24,000 pounds in accordance with the type of road in general use in the several provinces.

Size of vehicle is restricted in all provinces, except Alberta, 96 inches being the maximum width uniformly allowed.

Legal maximum speed varies from 30 to 40 miles an hour, 35 miles an hour being the maximum allowed in the majority of provinces.

In all provinces both buses and coaches are subject to police inspection at any time with respect to brakes, lights and mechanical equipment.

Public liability and property damage insurance is compulsory in all provinces and all provinces require the filing of both rates of fare and schedules.

Proof of financial responsibility is required in all provinces and may be given in any one of the following terms:--

- (a) Certificate of Insurance.
- (b) Surety Bond.
- (c) Money or Securities.

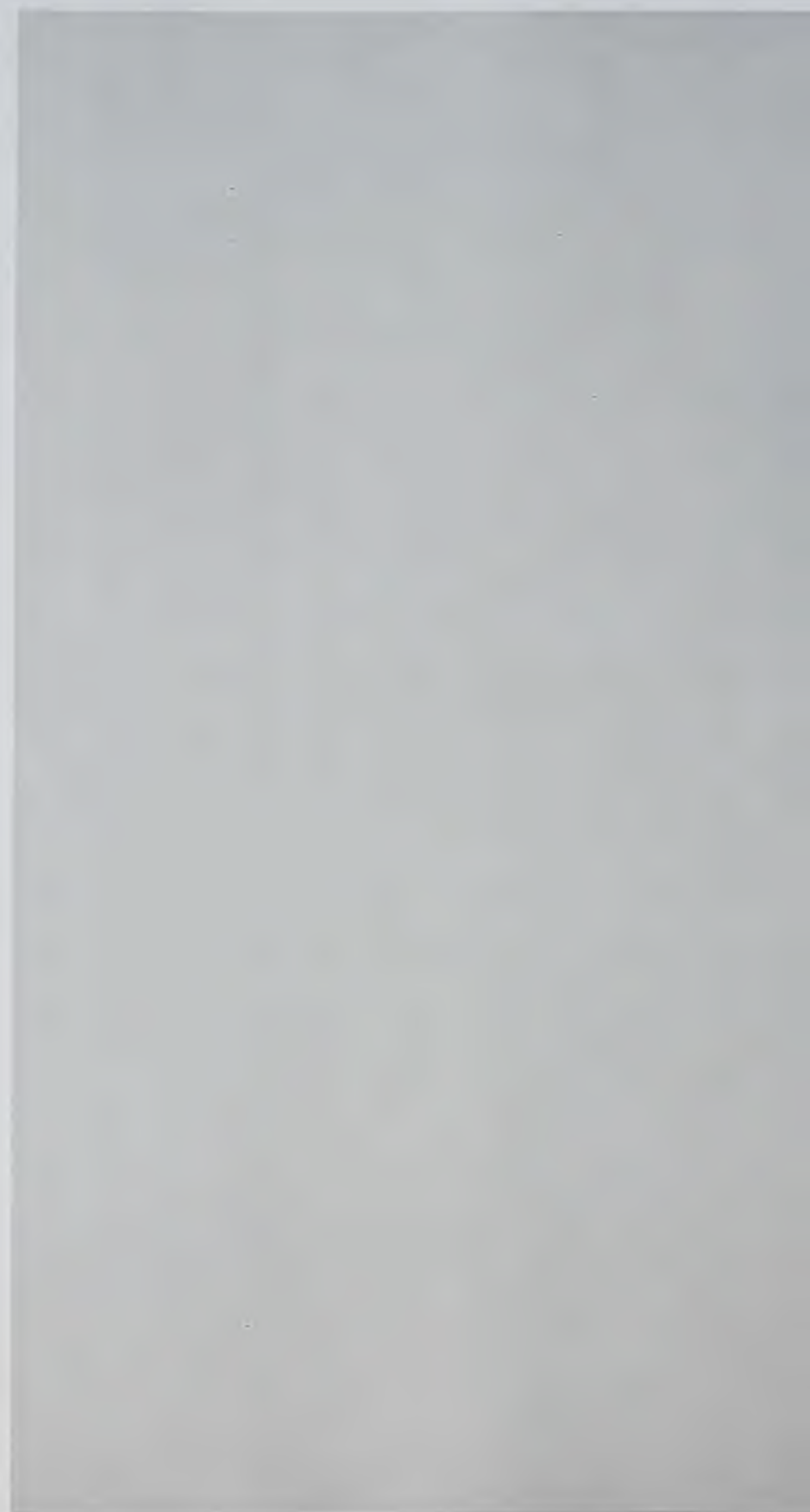
In each case the responsible minister may at his discretion require additional proof.

Physical fitness and qualifications of drivers are determined in all provinces either by observation or examination.

Hours of work of drivers are limited in all provinces, except Manitoba, the maximum working time permitted in any 24 hour period ranging from eight to ten hours, ten hours being the rule in the majority of cases, excepting only New Brunswick, which permits ten hours' work in sixteen.

(b) Company Regulations --

The governmental regulations cited above are supplemented in most cases by further company regulations which are an additional guarantee of safe and dependable service. Most of the companies enforce regulations requiring complete physical examination of all drivers similar to that which is required for insurance purposes. Drivers are also carefully examined for vision, and rules providing for periodical re-examination of eyesight are strictly enforced. Some of the larger companies also maintain training schools for coach operators which provide instruction as to the mechanical features of the motor coach and supervised training in the operation of coaches under actual service conditions. Disciplinary control of operating personnel similar to that in effect on the steam railroads is also exercised. Physical equipment is thoroughly inspected and a thorough overhaul of all coaches at specific intervals is stipulated.



IX.- Safety of Motor Coach Operation

The effect of the regulations, both company and governmental, outlined above, on the safety of motor coach transportation is reflected in the relative rarity of accidents involving fatalities to motor coach passengers. Data collected by the Department of Provincial Highways for Ontario shows that not a single person travelling on a motor coach during the past five years in the province of Ontario has been fatally injured.

X.- Type of Service Provided by Motor Coach

(a) Motor Coach a Pioneer in a New Traffic Field --

In any consideration of the utility of the motor coach as a transportation agency it should be borne in mind that the coach provides a convenient, frequent and flexible point-to-point service of a type not offered by the steam railroads. The coach is able to pick up and discharge passengers not only at centres of population, but at almost any point on the route it traverses. This flexibility enables it to provide economical transportation for a scattered population and to render a service to the rural travelling public not matched by that of any other common carrier transportation agency. Steam railroads, on the other hand, are limited by the very nature of their operations to the handling of passenger traffic between centres of considerable population.

The Association wishes to stress the fact that, far from duplicating the passenger services provided by the steam railroads, the motor coach has largely originated the traffic it now handles. Such being

the case, it cannot be said that the coach has built up its patronage by diverting traffic from other agencies. It should also be noted that the coach is able to serve communities not reached by the steam railroads, and it is not surprising, therefore, that on most motor coach routes the bulk of the traffic handled is local rather than through.

(b) Motor Coach the Most Efficient Agency for the Handling of Low Density Traffic --

The Association desires to point out further that because of the differences in the nature of the services rendered by the two agencies, motor coach services and steam railroad passenger services are complementary rather than competitive. Steam railroads are the most efficient land transport agency yet devised for the handling of mass passenger movement over both long and short distances. Motor coach services, on the other hand, are the most efficient agency for the handling of low density traffic.

In adjusting their services to the various types of traffic demands, the electric railways have consistently recognized these two principles. Taking the city of Montreal as an example, we find that the motor coach services operated by the electric lines have made no attempt to compete with the steam railroads in the mass movement of commuter traffic and have confined their operations to the handling of traffic of lesser density. Similarly, in the Toronto area the motor coach services operated by the electric railway authority have made no attempt to compete with the steam roads in the handling of commuter traffic on a price basis, steam railroads' commuter rates in effect

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in that area being uniformly lower than those of the motor services. When it comes to the handling of passenger traffic moving over long distances, moreover, motor coach services, even did their operators so desire, are unable to compete with the steam railroads in the matter of speed.

COMMISSIONER LEMAN: Are there any schedules filed indicating that the rates are higher, or is there only a statement to that effect?

MR. VIEN: We do not have that in our statement, but we can supply a comparison of commuter rates by rail from Montreal to the suburban districts, and similarly with Toronto, as compared with the rates charged by motor services.

COMMISSIONER LEMAN: I think it would be necessary not only to have the statement, but also to have the actual schedule of rates.

MR. VIEN: I think you will find that in the statement presented to the Commission by the Toronto Transportation Commission there was such a comparison filed. At any rate we shall be pleased to implement our statement by a tabulation of that character.

XI.- Motor Coach Services a Negligible Factor
in the Decline in Railroad Passenger Traffic

(a) Decline Chiefly Due to Increased Use of Private
Passenger Automobile --

While it is generally recognized that the loss in passenger traffic experienced by the steam railroads during the past decade is attributable largely to the competition of the motor vehicle, the Association desires to emphasize the fact that the proportion of

this loss attributable to the operation of motor coach services is relatively negligible.

In this connection attention is directed to the accompanying graph showing the trend of passenger traffic on all steam railroads in Canada set against registrations of all motor vehicles and registrations of all motor buses and coaches (Chart No.III). It will be noted that steam railroad passenger handling reached a peak of 51,318,000 in 1920, since which year the trend has been steadily downward, total annual passenger handlings having reached a low of 34,698,000 in 1930. During the same period total registrations of motor vehicles in Canada advanced from 407,064 to 1,239,888, the registrations of private passenger automobiles at the end of the period being 1,047,494. These figures show fairly conclusively that the downward trend of passenger traffic on the steam railways has been coincident with a very considerable increase in the registrations of private cars.

It will be observed that even during the later years of the period of declining steam railroad passenger traffic, registration of motor buses and coaches was a factor relatively so negligible as to be represented graphically only with difficulty. Still more significant is the fact that during the early years of the period when motor bus and coach registrations were so few as to be impossible of segregation in graph form, the decline in steam railroad traffic proceeded at a rate equal to or exceeding the rate of decline registered during the latter part of the period. We have pointed out that the registration of private cars

has been proceeding apace for the last twenty or twenty-five years, whereas the marked increase in coach and bus registrations occurred only during the last ten years. Notwithstanding that, the decline in the number of passengers carried on the steam roads was considerable for some time before the period when the buses began to increase in number.

The Association suggests that this comparison is conclusive evidence of the fact that interurban motor coach operation has had little or no relation to the passenger traffic decline experienced by the steam roads.

Further evidence as to the relative place occupied by the interurban motor coach in the passenger traffic field in Canada is contained in the following statement indicating passenger mile performance of the four land transport agencies:

Name of Agency	Passenger Mile	Percentage of Total
Electric Railways (including Feeder Bus Services)	2,660,000,000	14.5%
Interurban Motor Coaches ...	300,000,000	1.6%
Private Passenger Automobile	12,960,000,000	70.7%
Steam Railroads	<u>2,422,874,000</u>	<u>13.2%</u>
Total	18,342,874,000	100%

Explanatory Note:

Basis 1930 Data

Private passenger automobile, basis gasoline consumption, average mileage per gallon, number of cars registered and average passengers per car. Steam railroads, Dominion Bureau of Statistics official figure. Electric railways, basis total passengers carried and average length of ride. Motor coaches, basis number of common carrier buses, average mileage per coach per year and average number of passengers per coach.

Here again the comparison indicates the relatively minor share of traffic handled by the motorized interurban services, the ratio of passenger miles by coach to the total being only 1.6 per cent.

It should be noted further that the geographic distribution of interurban motor coach operation throughout the Dominion is such as further to minimize any possible competitive relationship between the operations of rail and coach services. Interurban motor coach operations in the provinces of Alberta, Saskatchewan, Manitoba, Nova Scotia, New Brunswick and Prince Edward Island are of relatively little magnitude. It is a fact, nevertheless, that relative to population and registration of passenger automobiles the decline in steam railroad passenger traffic has been as great in these provinces as in others where coach operations are more extensive.

THE CHAIRMAN: I rather think, Colonel Vien, that the material embodied on page 21 of your statement was presented to us in Toronto.

MR. VIEN: Yes, I think you had somewhat similar statements from the Toronto Transportation Commission.

COMMISSIONER LEMAN: And also in Quebec, I think.

MR. VIEN: Yes. We did desire, however, to complete our statement by introducing that here. I shall not now repeat anything that was previously presented, but what we say here substantiates the contention that the coach or the bus is not the most serious competitor of the railway.

THE CHAIRMAN: I am not suggesting for a moment that the statements are not entirely relevant, of course.

MR. VIEN: I am sure, Mr. Chairman, of that. I will simply state briefly, without taking the trouble to read this part of the submission, that it was put in there to show that what the railways are suffering from is the competition of the private car.

XII. - Taxation of Motor Coach Services

(a) Bases on Which Motor Coach Highway Taxes are Paid -

In all of the provinces of the Dominion motor coach operations are subject to direct highway taxes of two types and in the majority of provinces to direct taxation of three types. These are:- (1) a tax on gasoline, (2) license fees, (3) a road tax based on seat miles or ton miles operated or on a percentage of gross revenue.

A uniform tax of five cents per gallon on gasoline consumed is collected in all provinces, excepting only Quebec, where the rate since December 1st, 1931, has been six cents. It should be noted that gasoline taxes in Canada are assessed only against the motor vehicle, taxes paid on gasoline used for purposes other than the fueling of motor vehicles being refunded, which indicates clearly that governmental authorities consider these taxes a special assessment for the provision of the highways over which the vehicles operate.

License fees vary with the weight of vehicle and vary also as between the several provinces, the annual fee for an eight ton coach ranging from \$320 in New Brunswick to \$31 in Alberta.

Road taxes are imposed in all provinces but Saskatchewan and Prince Edward Island. Three of the provinces collect this tax on the basis of seat miles

operated, the rate being 1/10 of a cent per seat mile in Manitoba, 1/15 of a cent in Alberta and 1/20 of a cent in Ontario. Quebec charges a road tax at the rate of 1/10 of a cent per gross ton mile. The remaining three provinces impose road tax in the form of a percentage of gross earnings, the rate varying from one to two per cent.

All motor coach operations are also subject to municipal, corporation and property taxes, also to payment of excise taxes on bus bodies and import duties, none of which are applicable directly to highway maintenance but all of which are part of the general cost of the operation of the service. Taxation figures cited in the subsequent section of this statement will include only those taxes imposed directly for highway construction and maintenance in order that the relation between the highway taxes paid by motor coach operators and highway costs may be clearly indicated.

(b) Amount of Highway Taxes Paid by Motor Coach Services --

The amount of highway taxes paid by representative interurban motor coach services in Canada for the year 1930 as expressed in terms of percentage of gross revenue, tax paid per vehicle operated, and tax paid per mile of highway traversed is indicated in the following summary:-

Name of Company	Percentage of Gross Revenue	Taxes per Vehicle	Taxes per Mile of Highway Traversed	No of Coaches Operated
19 Largest Coach Companies Operating in Ontario	8.396%	\$822.46	\$100.89	309
British Columbia Electric Railway Co.Ltd.	9.15%	332.21	690.68	29
(No road tax on 16 urban buses)				
Provincial Transport Co.(Montreal)	13.19%	719.00	122.50	79
(Taxes include Bridge Tolls)				
Winnipeg Electric Co.	2.99%	1,314.80	166.40	14

As the Ontario companies whose taxation is cited above handled more than 93 per cent of the interurban coach business conducted in that province for the year stated, the figure \$822.46 may be taken as representing the average per vehicle tax paid by bus and coach operators in that province. This approximates the average for the Dominion as computed on the basis of the taxes paid by a typical eight ton coach in all provinces, excepting Prince Edward Island, and weighted according to the number of common carrier coaches in use in the several provinces, the average per coach per year tax for all Canada on the basis of this computation being \$790.

THE CHAIRMAN: What significance do you attach to this? If a man had a vacant lot he would pay taxes on it although he had no revenue.

MR. VIEN: The significance we attach to this is that the statement has been made time and again that heavier taxation should be assessed against the coach and bus operators. We are trying to point out that

these operators are already assessed very heavily and pay their fair share of the taxation burden of the country; moreover, that they pay a higher percentage of their gross earnings than the railways themselves.

THE CHAIRMAN: I am puzzled by the philosophy of your argument. You give us a lot of statistics about the number of buses, the number of passengers carried, the taxes and so on, but you do not relate that up to the other side of the picture.

MR. VIEN: As outlined in our preamble, we want to show two things: in the first place, that the bus and coach operators are at present paying a very heavy tax; in the second place, that the aggregate amount paid in taxes by the bus and coach operators and by the motor car operators more than meets the cash investment of the public in the highway.

SIR JOSEPH FLAVELLE: And the maintenance?

MR. VIEN: And the maintenance.

SIR JOSEPH FLAVELLE: That is a very important statement. You allege that if the municipalities or provinces indicated that all road improvements and maintenance should be charged to a special fund and the taxes collected from motor vehicles, on gasoline and for the use of the road, put against it, the cost of the road and its maintenance would be met. How soon would you amortize the investment -- over how long a time?

MR. VIEN: I hope to be able, in the figures which I am about to submit, to show that the total cost of construction of improved highways is paid by the motor traffic.

SIR JOSEPH FLAVELLE: Are you going to show over how long a time the capital investment will be amortized?

MR. VIEN: Yes.

SIR JOSEPH FLAVELLE: Before you leave the table on page 23; you have a column showing the taxes per mile of highway traversed. I am afraid I do not quite follow that.

MR. VIEN: That is on the basis of the route mile. A bus company, for instance, receives a license to travel between Quebec and Montreal, a distance of 180 miles.

THE CHAIRMAN: That would be \$18,000 in respect of all your vehicles?

MR. VIEN: In respect of the Quebec and Montreal route it is higher -- \$122.50 per mile of highway traversed.

COMMISSIONER LOREE: What was the cost of these vehicles? What was the capital investment in the property taxed?

MR. VIEN: Between nine and ten thousand.

COMMISSIONER LOREE: I mean the total. You are basing the tax on the number of miles operated, and so on; but reduce it to capital values -- that is the basis of most taxation.

MR. VIEN: Capital value per mile of highway, or the capital value of the bus?

COMMISSIONER LOREE: Of the bus operation.

MR. VIEN: I am sorry I have not got that.

THE CHAIRMAN: Referring to the first line of the table, is that taxation in respect to the operation of 309 buses?

MR. VIEN: Yes, it is the average per mile of highway traversed.

THE CHAIRMAN: Of the whole 309?

MR. VIEN: For the 79 buses which are operated by the Provincial Transport Company. Take, for instance, the 19 largest coach operating companies in Ontario; you have 309 coaches operated, and the amount of taxes averages \$100.89 per mile of highway traversed.

THE CHAIRMAN: For each of the 309?

MR. VIEN: It is the average. These 309 vehicles have travelled over a certain mileage in the province, and for every mile they have traversed they have paid \$100.89.

SIR JOSEPH FLAVELLE: Each bus?

MR. VIEN: No, it is not each bus.

THE CHAIRMAN: You said you were speaking of the route mile.

MR. VIEN: Yes.

THE CHAIRMAN: You have a certain route, and when analyzed on the basis of the route mileage, the total annual tax is an average of \$100.89.

MR. VIEN: Yes, per mile, not per bus.

THE CHAIRMAN: You multiply the \$100 by the number of miles and you get the total.

MR. VIEN: Exactly; it is related to the number of miles traversed, not to the number of buses. The same is true of the others which are given.

COMMISSIONER LOREE: What is the cost of a bus?

MR. VIEN: Between nine and ten thousand dollars.

THE CHAIRMAN: What would be the average cost per unit of these 309 buses?

MR. VIEN: About \$11,000 or \$12,000, I am instructed. The 79 buses of the Provincial Transport will average between nine and ten thousand.

COMMISSIONER LOREE: What have you invested in garage and plant for taking care of the buses?

MR. VIEN: I think I can give you the figures in respect of the Provincial Transport Company. They are as follows:

Number of coaches	79
Capital invested	\$1,727,271
Gross earnings	\$ 429,272
Route miles operated -	
Maximum	797
Minimum	146
Average	463
Coach miles operated	1,329,498
Gallons of gas consumed	193,000
Gasoline tax paid	\$ 9,652
Road tax paid	\$ 8,356
Provincial license paid	\$ 14,125
Municipal license paid	\$ 5,664
Total paid for 79 buses	\$ 37,887
Average	\$ 719
Bridge tolls	\$ 18,910
Total taxes and bridge tolls paid	\$ 56,797
Per cent of taxes (excluding bridge tolls) to capital invested	2.20 per cent
Per cent of taxes (including bridge tolls) to capital invested	3.23 per cent
Per cent of gross earnings (excluding bridge tolls)	8.83 per cent
Per cent of gross earnings (including bridge tolls)	13.19 per cent

The total capitalization involved in the 19 largest coach companies operating in Ontario is \$4,409.688.

(c) Comparison of Taxes Paid by Motor Coach Services
with Those Paid by Other Transportation Agencies --

Examination of the relative taxes paid by all types of motor vehicles operating in Canada indicates that motor coaches are by far the most heavily taxed users of the highways in the Dominion. During the year 1930 revenue in all provinces from taxation of motor vehicles totalled \$42,821,508, whereas registrations of motor vehicles numbered 1,239,888. It follows, therefore, that the average per vehicle highway tax was \$34.53. This contrasts with the average motor coach highway tax of \$790 indicated in sub-section (b) above. In other words, on the existing bases of taxation interurban motor coach services operating throughout the Dominion pay average highway taxes twenty-three times the average paid by all types of motor vehicles using the highways.

It should be noted also that motor coach taxes paid in Canada exceed those paid in the majority of the states of the United States. Examination of the accompanying chart (Chart No. IV) reveals that the Ontario coach tax -- which as has already been stated approximates the average for the Dominion -- is larger than that paid in forty of the states of the Union. It will be observed, moreover, that the Canadian provincial figure is considerably in excess of those prevailing in all the Border States, where climatic conditions are similar to those prevailing in the Dominion.

THE CHAIRMAN: I think the figures you give here

were placed before us in Toronto by Mr. Harvey, were they not?

MR. VIEN: I think so. To the figures given in Toronto, those for Quebec have been added.

XIII. - Relation Between Highway Costs and
Highway Taxes Paid by Motor Coach
Services

(a) Relative Use of the Highway by Motor Coach and
Other Motor Vehicles --

Examination of a comprehensive highway traffic census made by the Department of Highways of Ontario, in which province the density of both private passenger automobile traffic and motor coach traffic has reached the highest figure recorded in the Dominion, reveals the fact that motor coach use of the highway is a relatively negligible proportion of the total motor vehicle use of the highway. Analysis of the tabulated returns which show the movement of motor vehicles of all types over all the main highways of the province during the years 1929 to 1931 indicates that the mean ratio of motor coach traffic to the total over the period was 0.71 per cent, the percentages ranging from 0.67 per cent during summer months to 1.65 per cent during winter months.

Which shows that the use of the highway by the coach and bus is rather a negligible quantity.

THE CHAIRMAN: The unit, of course, is the vehicle?

MR. VIEN: Yes.

THE CHAIRMAN: It is simply a numerical ratio based on the number of vehicles?

MR. VIEN: Yes.

COMMISSIONER LEMAN: Not tonnage -- it has nothing to do with the weight?

MR. VIEN: No; we have touched that already. This statement is given simply to show that the highway is being used by a great number of motor cars, and that the number of buses or coaches using the highway is an infinitesimal proportion of the total number of motor cars using it.

Attention is also directed to the fact that the coach is extremely economical in its use of highway space in comparison to the private passenger automobile.

THE CHAIRMAN: I think we had that in Toronto too.

MR. VIEN: Yes.

(b) Highway Taxes Paid by Motor Coach Compared with Highway Capital and Maintenance Cost and Proportionate Use by Coach of Highway --

Comparison of the taxes paid by coach services per mile of highway traversed with highway carrying costs reveals that the motor coach has been shouldered with an altogether disproportionate share of the cost of the right-of-way it uses.

As already indicated in section 12, sub-section (b), above, the average tax per mile of highway traversed by the motor coach services of companies operating in the province of Ontario is \$100.89. It will be recalled also that the average taxes paid by this group of representative Ontario operators approximate the average for the Dominion. During 1930 total maintenance costs, including snow cleaning, on 2,737 miles of Ontario provincial highway were \$2,097,967, an expenditure of \$766.23 per mile. According to Mr. R.M. Smith,

Deputy Minister of Highways for Ontario, the construction cost of surfaced highways in that province averages \$27,000 per mile. On the basis of depreciation charges of 3 per cent and interest charges of 5 per cent, it follows, therefore, that the per annum capital charges on the type of highway used by interurban motor coach services in Ontario are \$2,160 per mile. Combining the two figures, we arrive at a total per annum maintenance and carrying cost of \$2,926.23 per mile. On comparing this total with the motor coach tax per mile of highway traversed, it will be found that the motor coach services in Ontario are paying taxes equivalent to 3.44 per cent of the total annual cost of provincial highways over which they operate. As indicated in sub-section (a) above, motor coach use of the highway is only 0.71 per cent of the total motor vehicle use; moreover the motor coach is three times as efficient in its use of highway space as the private passenger automobile. Bearing in mind the fact that motor coach taxation in Ontario approximates the average for the Dominion, the Association submits that these figures are ample basis for the assertion that the motor coach is now paying through highway taxation an amount greatly in excess of its equitable share of the cost of building and maintaining the right-of-way which it uses.

SIR JOSEPH FLAVELLE: You do not show in this paragraph when you expect to amortize the capital cost of the road.

MR. VIEN: I am instructed it is calculated on a thirty-three year period -- the cash investment would

be amortized in thirty-three years.

THE CHAIRMAN: I think the material which immediately follows was given to us in Toronto, and we have a record of it. You might pass on to the next.

MR. VIEN: Yes, Mr. Chairman.

(d) Coach Operation not Subsidized --

To the charge frequently made by interests antagonistic to motor coach services that the motor coach is a subsidized transportation agency, the Association would respectfully offer emphatic and unqualified denial. Unlike certain other transportation undertakings, no interurban motor coach operator in Canada has received direct governmental subsidy, either by way of cash payments, land grants, guarantee of securities, or otherwise. Moreover, the charge that interurban motor coach operation has been indirectly subsidized by construction of highways at public expense is without foundation in fact. This becomes apparent when comparison is made of aggregate annual revenue from motor vehicle taxation with aggregate expenditures on improved highway construction and maintenance throughout the Dominion, and due consideration is given to the disproportionate share of the motor vehicle taxation borne by the motor coach.

It is fair to say that our roads would have been brought to the degree of improvement of the average gravelled country road costing roughly \$3,000 a mile even if the motor vehicle had not appeared upon the scene, an adequate road system being essential not only to industry and commerce but to the railroads which are dependent on the feeder highways for the vast bulk of

their business, both passenger and freight. Let us then in making the following estimate include in our costs all roads in Canada as good as or better than gravel, and allow a construction cost per mile for each type at a rate estimated by Mr. R.M. Smith, Deputy Minister of the Provincial Highways of Ontario, less \$3,000 per mile -- a fair figure for what the cost would have been without the influence of the motor vehicle.

Total Maintenance and Carrying Charges on all
Improved Roads in Canada in 1930

Miles		
70,942	Gravel Roads at \$5,000 per mile	\$354,710,000
	(allowing for some improvement over average country road)	
4,992	Water-bound Macadam at \$20,000 per mile	99,840,000
1,445	Bituminous Macadam at \$27,000 per mile	39,015,000
1,275	Bituminous Concrete at \$27,000 per mile	34,425,000
1,421	Cement Concrete at \$27,000 per mile	38,367,000
17	of other construction at \$27,000 per mile	<u>459,000</u>
80,092	Total	\$566,816,000
	Less 80,092 Miles at \$3,000 per mile	240,276,000
		<u>\$326,540,000</u>
	Interest at 5% on above	16,327,000
	Depreciation at 3% on above	9,796,200
	Total Maintenance on Main and Sec- ondary Highways and Country Roads in Canada, 1930	<u>15,393,228</u>
	Total Maintenance and Carrying Charges	\$ 41,516,428

As the revenue from motor vehicle taxation in the Dominion of Canada for 1930 was \$42,821,508, it follows that the motor vehicle is paying more than its full share of the total cost of highways.

THE CHAIRMAN: Where is that figure of fifteen millions taken from?

MR. VIEN: From figures published by the Dominion Bureau of Statistics, 1930.

COMMISSIONER LEMAN: That takes it for granted that you would have built as many highways if you had had no motor vehicles.

MR. VIEN: Except that the \$3,000 per mile would be the cost of a gravelled highway.

THE CHAIRMAN: But you are assuming the same mileage?

MR. VIEN: Same mileage. Most of these gravelled highways were already in existence.

(e) Highway User Not the Only Beneficiary of Highway Construction --

The Association would also direct attention to the fact that the highway user is not the only beneficiary of highway construction. Not only the highway user, but the provinces as a whole, the communities situated on the highway and the owners of property abutting thereon and in the vicinity, are also beneficiaries. What the proportionate division of costs among the beneficiaries should be is open to question. One conclusion arrived at after exhaustive study of the problem is that of the Royal Commission^{on} Transport in Great Britain, which body in 1930 recommended that the assessment against the highway user might equitably be two-thirds of the total.

THE CHAIRMAN: Two-thirds of the same total you are dealing with here.

MR. VIEN: Yes, my lord, the submission being

that there are so many others who are beneficiaries of the improvement of highways.

THE CHAIRMAN: Yes, but you are allowing for all that in your two-thirds?

MR. VIEN: On page 28 we have given the total maintenance and carrying cost, \$41,000,000 odd --

THE CHAIRMAN: I quite follow that point, but I am referring to this figure of three per cent. You say that is based on a thirty-three year period. It is a pretty long period, and if correction were made there it is a question whether that would not carry you beyond the two-thirds.

MR. VIEN: The Department of Highways of Ontario figure that the three per cent would be on a basis of a thirty-three year period, but as a matter of fact it is a twenty-one year period; I suppose they are taking a margin of safety. The three per cent is accumulating, and if you figure it out correctly you find that it will amortize the cash investment in highways in twenty-one years.

THE CHAIRMAN: That is, taking the interest?

MR. VIEN: Taking the interest, yes, and a safety margin in their estimate.

COMMISSIONER LEMAN: If the users are absorbing the two-thirds, who is absorbing the other third?

MR. VIEN: The community at large; that means the state.

COMMISSIONER LEMAN: Why?

MR. VIEN: Because the state is fairly representative of all the other beneficiaries. It is difficult, for instance, to say what proportion should be assigned to the land owners whose property adjoins the highway --

it would be an arbitrary division. But the community at large benefits by the improvement of highways. For example what proportion should be assessed on the provincial governments because of the benefits they derive from the higher liquor sales or greater gasoline tax revenue, and so on, arising out of the tourist traffic? They are beneficiaries, and the highways would have been improved even if there were no buses or coaches, in order to induce these tourists to come. It would be a general, all round benefit: the province would benefit; trade in general would benefit; the land owners on the highways would benefit.

SIR JOSEPH FLAVELLE: Of course the earnings of the railways are lessened, not increased, by this acceleration in motor tourist traffic. The profit of an enterprise is on a very small surplus at the top; it takes the earnings all the way up to pay the charges. What we are endeavouring is not to make a case against the motor coach or motor truck, but to ascertain what is the basis for an equitable relationship between the railway and the bus and truck services. Is this new development something which is here to stay, and in respect to which the railways must take their medicine, like everyone else where there is a change; or should there be an assessment on those who carry the tonnage away from the railways so that there will be some relatively compensating basis as between what it costs the railway and what it costs them?

MR. VIEN: I submit, your lordship, that the motor coach and the motor bus have come to stay. It is an institution which answers a public demand and fulfils a public requirement. It would be unjust, unfair, in-

equitable, against the public interest, to burden an industry which is operating under the law and in which the legislatures and governments of the various provinces have invited the people of Canada to invest their money. The railways could have adapted themselves to these new conditions. I am not going to suggest that they should cry over spilt milk, nor shall I invite this Royal Commission to do so. But may I quote what Mr. Macaulay, Minister of Highways for Ontario, said recently:

"Both Premier Henry and myself, as Ministers of Highways, and authorities of other provinces too, I believe, have repeatedly but unsuccessfully urged the railroads to go into auxiliary lines of traffic, and operate trucks and buses as feeders to their long run principal lines. We would have welcomed the railway companies as operators of such services in this province, but they could not see their way clear to enter the field."

Inasmuch, therefore, as there was a need to be fulfilled, they first addressed themselves to the great railway companies, whose duty at least at first sight seemed to be to adapt their services to present day requirements. I do not question the wisdom of the railway companies in deciding that it would not be proper for them to enter this field of activity, but the public had to be served, and they were served. The provincial governments enacted motor vehicle legislation under the authority of which licenses were issued by the Crown. The large sums of money put in these enterprises constitute a vested interest that cannot be lightly touched or disturbed. Moreover, I submit that no taxation imposed on the bus or coach can be an adequate remedy for the ills from which the railway companies suffer or of which they complain.

What is the aim or purpose of the railway companies in respect to the questions that are now submitted to your Royal Commission? Are they going to urge that the motor coach and bus industry be set aside in order that they may come in and do now what they were invited to do a few years ago and declined? If that is not their object, then it can be no other than to ask, as they have urged in many instances, that the coach and the bus and the truck be so burdened with taxation that the traffic will again go to the railway.

THE CHAIRMAN: You see, Mr. Vien, it is not an issue between the railways as such and the motor buses or motor traffic. It is an issue that arises in the interests of the public with regard to the necessity for the maintenance of the railways for the purposes, let us say, of long distance traffic -- I am merely putting that as an example. The question that we are really concerned about is whether the traffic that we are now discussing is unduly and unfairly pressing on the railways, from the point of view of the public interest.

MR. VIEN: As I said at the outset, I know that your Commission has the duty of finding a remedy for the situation now complained of, which is certainly a fact and not a fancy.

THE CHAIRMAN: It may be that you are not unfairly pressing them at all, and that the railway difficulties will have to be met without special regard to you. On the other hand it may be that the circumstances are such that there is unfair pressure from you, and that is the point we have to determine. To put it as if there were two parties to the issue here, the railways on the

one hand and the proprietors of motor vehicles on the other, is perhaps not putting it quite in the right way.

MR. VIEN: I was contending, my lord, that to place any additional burden on the coach or the bus would not be a proper remedy for the difficulties of the railway. I take it you are mainly concerned in seeing to it that the transportation services of Canada are so coordinated that they will function properly and prosper. Additional taxation on the coach or bus would not help the railway. To begin with it is a negligible quantity; all authorities agree that the railway is not suffering at the hands of the bus or coach but rather at the hands of the private car owner. That the private car owner will remain is a foregone conclusion. That you cannot tax all the people because they are competitors is, to my mind, another foregone conclusion. It has been urged that the motor car and the motor bus or coach should adequately pay for the highways. They are doing so. We have tried to show that the total cost of maintenance and carrying charges was \$41,000,000 and that \$42,000,000 have been collected from the motor industry. What, therefore, is the remedy? We have tried to show that our interest is a reputable, lawful interest and that it should not be disturbed. If I am invited to offer a suggestion, it would be that the railways could perhaps work out their own salvation. Is there not competition between themselves that is just as damaging to their economic condition as the one of which they complain?

COMMISSIONER LOREE: Let us come back for a minute to the bus. You say that the competition of the bus with the railroads is negligible, that the real com-

petition is that offered by the privately owned car. I would agree with you entirely as to that. You read from Mr. Macaulay that the railroads had been invited to go into the truck and bus business. Now, the railroads of Great Britain have been in the trucking business for a hundred years. Last year they lost \$6,000,000 on their truck business, and the year before they lost \$6,200,000. The reason the railroads do not want to go into the truck business is because they are sure they will lose money on it.

MR. VIEN: May I ask whether the same results prevailed in 1925, 1926 and 1927?

COMMISSIONER LOREE: There have been occasional years when they made money, but that was due to peculiar circumstances; in the main the business has been a losing business from the start. The second point is this: some of the railroads were induced to go into the electric interurban business by the same line of argument that you here present. They all lost money on it. My own company lost \$20,000,000, and in the light of that experience they are not going to be tempted a second time into going into what looks like a losing business. I do not know of a single motor bus company whose accounts are kept as railway accounts are kept that is in a position to pay dividends. What I am concerned ^{about} is not the competition between the motor buses and the railways, but whether or not the motor buses, having destroyed the interurban electric lines, will themselves in a few years go out of business, with the result that the public in the neighbourhood served by them will be left without any transportation at all.

MR. VIEN: My impression is that if the time comes when the motor bus and motor coach services are such a losing proposition that they will be compelled to go out of business, the country as a whole will have to establish transportation facilities, administered and paid for as any other public service is -- the post office, for example, public works and canals. If the railways complain to-day of the competition from the motor car ---

COMMISSIONER LOREE: I am denying the complaint. I am saying there is no complaint of the motor bus.

MR. VIEN: Well, I have seen in the newspapers ---

COMMISSIONER LOREE: Oh yes; you see in the newspapers all sorts of things.

MR. VIEN: I have seen a great deal of propaganda by officials of the railways themselves, who have conducted an active campaign tending to educate public opinion to the belief that the cause of all their troubles is the motor car or motor bus operation. May I be permitted to say, if my suggestion is invited, that the bus and the coach and the motor car have come to stay, and it is not in that direction that a remedy must be sought.

COMMISSIONER LOREE: I will agree with you entirely when you say that the car has come to stay, but it looks to me as if the bus is a very temporary expedient. At one time I operated 102 buses and they all lost money. They are losing money to-day, and they have been in the service about eight years. I do not see any survival for the bus business.

MR. VIEN: Would it be helping them or helping

the public or the railway to impose additional taxation, as has been so often suggested?

COMMISSIONER LOREE: That is not the question I am raising. I am speaking about their ability for any considerable time to furnish a service to the public.

MR. VIEN: Well sir, the figures that we have, and which we shall implement at the request of the Commission, go to show that the bus operations of the larger companies which are efficiently managed are on a satisfactory basis, and that there is provided in their accounts sufficient to take care of depreciation and sinking fund.

COMMISSIONER LOREE: I shall be glad to see the figures.

MR. VIEN: We will submit them, with pleasure. Of course we will ask the Commission to regard them as confidential.

COMMISSIONER LEMAN: Mr. Vien, if the public motor coaches and buses were taxed on the same basis as private vehicles are taxed, could you vouchsafe any information as to what would be the financial results in the case of the companies coming under the jurisdiction of your Association? Could you work out some figures on that basis?

MR. VIEN: I think so. We shall be pleased to submit them.

COMMISSIONER LEMAN: Would it not be interesting to know just where you would stand in that event?

MR. VIEN: I am instructed that that can be done.

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THE CHAIRMAN: I understand that you are offering these figures on the understanding that they are to be confidential.

MR. VIEN: Yes.

THE CHAIRMAN: I think we got some such figures from the Gray Coach Lines.

MR. VIEN: Yes, the Toronto Transportation Commission.

I think, Mr. Chairman, there is competition among the railways themselves that could be eliminated. I will give you a few examples. Take the express services; why should there be three or four or five express offices in every city, town or village? Why should there be a number of delivery waggons to collect and deliver goods? Why should there be unnecessary overhead and fixed charges, when one big express company could adequately serve the needs of Canadian business? Could not these services be pooled and administered by a company in which both the present companies would be represented? Then, take the commercial telegraphs; why should there be competition between two telegraph companies? Take the passenger services; why should there not be a pooling of passenger service equipment under the auspices of both companies, both perhaps being represented in a holding company? Why should there be a duplication of repair shops? Why should there be so many terminals in so many cities? Why should there be duplication of hotel services? There are many avenues which suggest themselves as means of correcting the situation.

I am not going to suggest that there should be only one railway company in Canada. The present hard

times will pass; we should not judge the situation during an economic crisis. A few years ago the earnings of the railways were not so unfavourable. I draw the attention of the Commission to the dangers of a railway merger; first, the creation of a great octopus against which the government of the country would find itself weak; second, the absence of competition. These are the two great dangers which would arise out of any big railway merger, and although I have pointed them out I am sure that your Commission is not unmindful of them.

Now, gentlemen, I think I have practically finished with the submission which we desire to make, except that I may perhaps add this:

The Association desires also to emphasize the fact that efficient and economical transportation of all types is of vital importance to the social and economic life of the Dominion. Motor coach services are part of a secondary land transport system, based on the development of the motor vehicle, which during the past twenty years has not only proved its efficiency but demonstrated its enormous value to the life of the country.

Moreover, the Association submits that in the light of the facts cited in this statement, abolition or restriction of interurban motor coach services would be of little or no immediate benefit to the steam railroads. As already indicated, interurban motor coaches carry only 1.6 per cent of the total passenger movement in the Dominion. It has been shown also that much of this interurban movement is of a type that is not and cannot be serviced by the

steam roads. Apart altogether from the unwisdom of attempting to direct the flow of traffic in accordance with the self-interest of any particular transportation agency, the claim that restriction of interurban motor coach operation would result in the diversion of a major volume of passenger business to the steam railroads is obviously absurd. Equally untenable, in view of the relative extent of their passenger handling, is the argument sometimes advanced that taxation of the private passenger automobile should be reduced and that of the common carrier coach increased. Even accepting self-interest as a proper motivation, why seek to restrict an agency carrying 1.6 per cent of the total traffic while at the same time stimulating use of an agency carrying 70 per cent of the total? Such action would only further embarrass the steam railroads, while at the same time penalizing that section of the highway travelling public which is dependent upon the motorized common carrier for the opportunity to use the highway in which it has a vested interest.

It has already been shown that in relation to the total of motor vehicle taxation, interurban motor coach services are now overtaxed. There is no reasonable justification, therefore, for further increases in motor coach taxation. Further levy on the motor coach could have no other effect than the penalizing without just cause of a highway transportation utility which has demonstrated beyond question its economic efficiency in the field it serves. Inevitably the burden of such penalty would have to be



borne by the travelling public in the form of increased rates of fare or reductions in service, which are not justified by the demonstrated facts of the case.

We thank you, Mr. Chairman, and members of the Commission for the attention you have given to our submission. We shall do our utmost to furnish any other information you may require, and we shall send in the figures that have been requested.

THE CHAIRMAN: We are much obliged to you, Mr. Vien. We will now hear from Mr. Tallon.

MR. R. J. TALLON: My lord and members of the Commission, we have drawn up and submitted to you a document consisting of some sixty-eight pages. We spent rather considerable time and effort in its compilation, and with the thought that the members of the Commission are just about as competent to read as I am, it is not my intention to read the submission in its entirety. Rather I propose to touch upon a few of the high spots, and if within the time at your disposal there are any questions you would care to ask, I would appreciate your doing so in order that you may be clear on what we are attempting to outline. I am not a member of the legal profession and possibly in all instances I shall not be able strictly to conform. I am out of the shops of one of the railways concerned, just amongst the rest of these men affected, who in normal times number some two hundred thousand. I do not suggest that I am here speaking absolutely the thoughts of two hundred thousand employees, because most of you men have had some experience in the body politic and know how impossible it is to speak for all concerned. But I will say we have a fairly good form of organization,

and while your Board may have heard from some local groups here and there that were conscientiously attempting to convey to you the impressions of their men as they understood them, I think it can be stated that this is the first occasion upon which you have heard from representatives of the general group.

In brief, sir, we are not actuated so much by material interests from a corporation viewpoint as to whether the buses fulfil the transportation needs of this country or whether the railways do. The men that we represent have put in their lifetime in the service of the transportation industry of this country. Some of them who have had twenty or twenty-five years experience in this industry, practically a lifetime of service, are now being laid off, and they are materially concerned. I am not coming to you on this occasion with the suggestion that you must not do certain things because of the fear that men might be displaced. After all, perhaps it can be best explained in this way: we are actuated wholeheartedly by a desire to be of service to the transportation industry, and we realize that if we were to suggest something from the purely selfish point of view that might result in men being kept in the service for the present, two years hence it might result in the industry being unable to maintain their end. Our submission is based on the theory that if the suggestions advanced are carried out to such an extent as you feel that can be done, ten years hence the industry that our men have put all their lives in will be on a more stabilized basis and we will have something material to go on with.

We have heard a prolonged discussion to-day of the question whether buses should be taxed, whether the railways should go into the bus system -- this, that and the other thing; but I think we are sufficiently wide awake to conditions as they have developed to know that things are going to proceed along the line of least resistance; if one form of transportation can survive and is superior to another, it will ultimately take the place of the other. So that in following through our submission what we are materially interested in is that any form of transportation that enters into the picture is maintained on a fair basis, and I do not think that can be attacked by anybody. In other words we believe that the public and the interests of industry would be served by having a form of competition. We believe it is the general consensus of opinion, and past history will substantiate it, that there is a certain incentive in the form of transportation we have in Canada, where there are two systems, one pepped up against the other and kept on its toes for the service of the country; that perhaps in the final analysis a certain form of competition is preferable. We have that to-day, and it is pointed out that we are in difficulties arising out of it. The alternative, of course, is suggested of merging them, of having an amalgamation, and I presume the idea in the minds of those who make that suggestion is that there are certain things that amalgamation can do. Our thought is that those things that can be brought about by amalgamation can to a very large extent be brought about by and with the present form of management operating competitively. We have pointed out to some extent wherein we think that

things might be brought about to arrive at this stage of affairs.

Our brief might be suggested by some to be a Canadian National brief because of the numerous references in it to that railway. The reason for that I think is obvious. Seemingly it is the difficulties in which the Canadian National now find themselves that have given rise to the appointment of this Commission of inquiry. Although we make references to the Canadian National, as a matter of fact we were here representing the employees of the Canadian Pacific as well, because our organization is such that it represents all these men in organized form. We refer in our brief to the absolute necessity of keeping railway matters away from political interference. Now, we are not partisans; as an organization we do not take cognizance of the fact that somebody might be a Conservative, somebody else a Liberal and that kind of thing. But we do say that fundamentally an institution such as ours cannot be adequately and properly managed if it is in the position that every member of parliament and every politician in the country has to extend favours to somebody who happens to vote for him. That kind of thing cannot go on. I am not going to suggest to you that we are stating that such a condition is prevalent to-day; we give credit to governments in the past and to this government to the extent that they have kept away from it. But it has been found impossible to keep away from it one hundred per cent, by the very nature of the institution, and we make certain suggestions in this brief wherein we think there might be improvement in that respect, although we do not

charge any government with making a political football of the matter.

We believe one of the greatest emcumbrances that we have to stagger along with at the present time is the financial structure that has grown up in the Canadian National properties by virtue of all the liabilities incurred by past companies and now resting as a liability on the consolidated properties. We point out in our brief that invariably the world over where institutions have come to the point that they cannot carry on and have gone into the hands of a receiver, these things have been written down; they have forgotten the past and started anew. That has not been done in the case of the Canadian National Railways; everything that went into these properties from the inception in the way of subsidized promotions and so on is still there. In that respect we make suggestions in our brief that might be taken cognizance of that the entire capitalization be written down and a true concept of the situation placed before the people of Canada.

I would like to have the opportunity to elaborate somewhat on the work that we as an organization have done so far as Canadian labour is concerned, and just in that connection I might refer to the preamble to our brief, in which we point out that in normal times there are approximately two hundred thousand railway employees in Canada, that they and their dependents total about a million people, which is a little less than one-tenth of the population of the country. Their interests have to be taken care of, and if we can do anything arising out of the report of this Commission to put the industry

on a stabilized basis so that it will provide for these people in an adequate way, I think we shall have done something for the country.

COMMISSIONER LEMAN: Would that proportion be about the same in other countries?

MR. TALLON: I would judge it is a little more in this country. The United States has developed highways to a greater extent and they are more largely engaged in other forms of transportation.

COMMISSIONER LEMAN: You have statistics on that particular feature?

MR. TALLON: I have the statistics as respects the Canadian National Railways, and we could give them as to the railways to the south.

COMMISSIONER LEMAN: And European countries?

MR. TALLON: That would be more difficult. Undoubtedly they are available, but our means of securing them are such that perhaps we could not get them readily.

We point out in our brief the relation of the moneys paid out to the general financial structure of the country, and we go on to say:

It is to be observed that while the disbursements in salaries and wages chargeable to the cost of railway operation declined by a little more than \$13,000,000 from 1928 to 1930, the interest on the debt of the Canadian railways together with the dividends disbursed, increased by \$18,000,000.

Of the 200,000 railway employees of Canada it appears that at least 70,000, or 35 per cent, are to-day wholly without employment.

We are in hopes that that condition will rectify itself. We realize that we are confronted not only with industrial depression but also with the natural evolution of industry and transportation. While our purpose is not to deal so much with the depression, it is to deal with the problem confronting us, that we may so adjust things that when general industrial conditions return to normal the railway industry will return to normal with those conditions.

Part II deals with the adjustment of railway labour disputes. It gives a picture of the present relationship between railway labour and railway management in that respect, and shows that through all the years we have gone along amicably and have preserved that harmonious relationship that is invaluable to the successful working of large industrial institutions. That we have in Canada avoided a state of turmoil and trouble is something to be proud of, and that I think the Commission will subscribe to. We outline the various methods of procedure in ironing out our difficulties, and we give a few pages to acquainting the Board with our cooperative form of organization wherein the intelligence of the employees is brought to bear upon constructive work to better the properties. Since this cooperative movement was instituted, some 9,605 suggestions that have resulted in savings, suggestions offered by the men, have been accepted and put into practice. We have charts here showing that certain of these suggestions resulted in savings of \$2,000 per year, \$700 per year, \$1,000 per year, and so on. In the past it has been thought that organized labour

existed only for the one material purpose of fighting company conditions. We recognize the evolution of machinery, and we realize too that we can only survive to the extent that we place this on a basis that will be comparable to other competitive industries. We have to recognize that the newer forms of transportation have come to stay, but after all, the steam railways, which employ one-tenth of the citizenship of the country in normal times, is the backbone of the nation; we have built up conditions that we think are conducive to a fair livelihood and we insist that all other forms of transportation should be on a fair basis also.

Passing now to page 15, we make certain suggestions as to things that might well be merged for the purpose of bringing about more economical transportation. There is undoubtedly a point where this can be done, and there is a limitation to it. It has been mentioned here and in other places that to some extent passenger traffic might be pooled with advantage to both railways. There are possibilities in that connection that I do not think it is necessary for me to go into at this time; the railway managements have no doubt made suggestions along these lines, and I do not want to repeat. There are obviously certain services that might be merged, and we have outlined some of them. It does seem to us that such services as hotels, coastwise steamships, express and telegraph facilities, that are not matters directly of transportation, might well be taken care of by another company, the transportation officials giving their entire time to transportation itself. We may be

wrong in this; it might be better, for instance, that the telegraph facilities be carried on by some form of competition and the services kept up. We are not adamant on these things, but we do say that the service we are most familiar with, that is the actual transportation service, would be best served by a healthy form of competition.

SIR JOSEPH FLAVELLE: You say on page 17 that in your judgment the competition between the Canadian National and the Canadian Pacific in the last ten years has not been a serious factor in causing Canadian railway difficulties.

MR. TALLON: Yes. It has been generally stated that the Canadian National in its competition with the Canadian Pacific is in some degree responsible for the fact that both roads have not been making the returns they might have. We believe with the development of this country as such that free competition between these enterprises is conducive to better service, and that the country as a whole is broad enough in its scope and is growing sufficiently to justify that competition. In other words, the competition as such has not been responsible for the condition referred to. But in some of its forms the competition is not comparable to that of other industries of the country. For instance, both companies, it is said, are not justified in running three trains each night between Toronto and Montreal. We say that these things should not be weighed against the principle of competition between the two railroads, and we suggest here that a national transportation board be established for the sole purpose of regulating that



kind of thing, with the power to eliminate such services as are mitigating against the success of the road.

SIR JOSEPH FLAVELLE: In other words you think that the competition has been sufficiently irrational that it is desirable to have a board appointed to control it when it reaches that stage. Where is it you say that?

MR. TALLON: We suggest on page 49, for instance:

That the Board of Railway Commissioners for Canada be reconstituted into the National Transportation Board of Canada and empowered, upon its own initiative or upon complaint, to investigate wasteful rivalries in transportation service, whether by railway, highway or waterway, hold hearings and if in the public interest, issue orders eliminating the wastefulness of such services.

We have gone very closely into the procedure of the Board of Railway Commissioners, and while we do not suggest any criticism of its personnel or findings, the work that has been given to it in past years has not been such as to expect it to deal with major problems. We have it in mind that by the creation of a national transportation board these matters would be without the scope of parliament, the Minister of Railways, parliamentary committees and political bodies. Perhaps the Hydro Electric Commission of Ontario is rather a criterion of what we are attempting to suggest to you.

COMMISSIONER LEMAN: But there is no competition there.

MR. TALLON: Well, that is a reason for advancing this. It is to be pointed out that the national trans-

portation board is not for the operation of the Canadian National Railways. That is, there is a board of directors of the Canadian National Railways, and we go on to show on what basis we think this board should be appointed. Its personnel should be non-political; the terms of appointment of its members should be staggered so that they would not be changed with changes in government. That is the board of directors for the Canadian National Railways; but we say that the national transportation board should be appointed for the purpose of passing upon matters submitted by the Canadian Pacific board of directors or the Canadian National board of directors.

SIR JOSEPH FLAVELLE: And to be appointed by parliament, I presume?

MR. TALLON: Appointed not only by order in council but with the approval of parliament, giving it more continuity than it has at the present time; so that it will be recognized that these men are non-partisan, that they represent the community as a whole, that they are men of very high type who are dealing with all these problems on a business basis and not subject to political control. That is what we have in mind; then a national transportation board that would deal with bills originating not only with the Canadian National but also with the Canadian Pacific, looking to huge expenditures for branch lines and that kind of thing. Technical advice and suggestion could be given as to whether these things should be granted or not.

SIR JOSEPH FLAVELLE: You mean to advise or direct?

MR. TALLON: Again I would point to the Ontario Hydro Electric Commission; they do put into effect these things, and we all recognize that essentially they are subject to appointment by parliament and subject to removal for cause. You cannot say that they are a body acting arbitrarily without any responsibility to the people. For instance, we have had the spectacle in the past few years of the board of directors of the Canadian National passing upon the activities of the management, and then we have a parliamentary committee calling on the management to appear and taking up their time for months inquiring into all kinds of things. It seems obvious that the things they are inquiring into are actuated by reports they have to make back to some of their constituents for propaganda purposes. We believe any inquiries the Minister of Railways or the parliamentary committee wish to make into the management of the road should be directed to this responsible board, first of all the national transportation board or the board of directors, in other words removing it from the scope of politics.

COMMISSIONER WEBSTER: Have you fully considered the implication of the words in the first paragraph on page 49, "issue orders eliminating the wastefulness of such services"? You refer to past operations as well as future operations?

MR. TALLON: Yes.

COMMISSIONER WEBSTER: Suppose this board were to consider conscientiously the matter of competing lines, we will say in certain western districts, which might be considered wasteful extravaganc~~e~~^a. Suppose the mileage of these competing lines would run up to three or four



thousand, and this body were to recommend that that mileage be eliminated, that the country could be just as well served without it. Would you approve of the action of a board that abolished those lines even though it would mean the throwing out of work for the time being of a considerable number of men?

MR. TALLON: I would say this, that the service would not be justified if it was continued for the sole purpose of keeping men in work, because there are cheaper methods of keeping men in work than that. But I would want to investigate very closely and inquire into the suggested reasons for its abolishment. I maintain that the railway industry is at least justifying a double track line in some places. If the only justification for an industry being in existence is to keep men employed, we cannot conscientiously go along on it because it is on a false basis.

COMMISSIONER WEBSTER: I am interested in your view in that respect.

SIR JOSEPH FLAVELLE: On what pages do you deal with the Board of Directors?

MR. TALLON: It is on pages 58 and 59.

SIR JOSEPH FLAVELLE: In this case the appointing power is the government of the day, or parliament, is it?

MR. TALLON: Well, with the proviso that we think they might well be appointed as has been established. For instance, on page 60 we say:

There are some outstanding examples of government ownership and control of railways and other enterprises in which attempts have been made,

apparently with success, to forestall political interference. One outstanding characteristic of many of these attempts is the appointment of directors from the nominees of interested economic groups rather than their selection by geographical areas. This is a feature of the directorate of the Port of London Authority, the German National Railway Company, the German potash industry, and particularly the Central Electricity Board of Great Britain.

In other words they have the various economic groups that are interested suggest a number of nominees from which the government makes its appointment, and, as we suggest, they have the appointments ratified by parliament, so that the fullest scope is given to the people to ratify the appointment of those who are placed in charge. Once ratification of appointment is made, I think to the greatest possible extent they should leave the regulation of the industry to these people. That, in brief, is our contention with regard to the board of directors.

It is obviously necessary for a railway, if it is to exist in a country such as this, to have transportation of bulk commodities. Agreeing that the facilities are necessary, if you are going to have the railways in existence only for the transportation of bulk commodities and then give to some other institution a franchise that will enable them to take the cream of it, somebody has to pay for the maintenance of the group. What I am driving at, perhaps in a roundabout way, is that our national transportation board would be in continuous operation for the purpose of dealing with all these matters

and suggesting what regulations might be brought into being for the proper carrying on of these competitive industries.

SIR JOSEPH FLAVELLE: You mean the board of directors?

MR. TALLON: No, I mean the national transportation board. The board of directors obviously would be for the purpose of conducting the Canadian National Railways; the other board would deal with major matters affecting not only the Canadian National but the Canadian Pacific. Just on that point, we realize that highways are under provincial authority, but we believe that on account of their interprovincial character the provinces would give to this board regulatory powers to deal with bus and truck transportation so that it would be on a fair basis.

Then we go on to say -- page 63 -- that an advisory committee should be set up consisting of representatives of the interested parties: the Minister of Railways, the president of the Canadian National, the president of the Canadian Pacific, the president of the express company, the chairman of the national transportation board and representatives of the employees, which would meet occasionally, talk things over and make suggestions arising out of which advice might be given to the national transportation board to put into effect some of the things that would seem to be obvious for the betterment of the industry.

SIR JOSEPH FLAVELLE: That is to say, you would expect such an advisory committee, being composed of representatives of both railways and of the workers of

both, to determine by friendly agreement many of the difficulties that might otherwise go to the national transportation board.

MR. TALLON: They would be what you might term a buffer -- ironing out preliminaries, making suggestions to the board; then the board, with the preliminaries out of the way, would put into effect what might be necessary to conform to the needs of the situation.

COMMISSIONER LEMAN: You do not think your field of competition would be considerably restricted with all these boards preventing initiative in every direction?

MR. TALLON: Preventing initiative? I do not just gather how that would be. What I thought was that the railroads would give evidence of initiative. For instance, if this great group of employees, or the railway officers or any others interested felt that they had an idea that would result in the betterment of the industry, there would be this avenue through which it could go and perhaps reach the point where action would be possible. At the present time there is no such avenue.

COMMISSIONER LEMAN: But rates are fixed by the railway board.

MR. TALLON: For the steam railway, but not for the transportation industry.

COMMISSIONER LEMAN: But as far as the railways are concerned.

MR. TALLON: Yes.

COMMISSIONER LEMAN: The labour costs are practically the same for both companies?

MR. TALLON: Identically, yes.

COMMISSIONER LEMAN: Then you would prevent waste-

fulness or undue competition?

MR. TALLON: That board would have the initiative to do these things.

COMMISSIONER LEMAN: Can you indicate in what sphere of activity competition would still be exercised?

MR. TALLON: For instance, I suppose the great bulk of the transportation is the hauling of our wheat from the prairie provinces to the Atlantic seaboard. Where the shipments originate at points which both railways serve, it would be a question of putting the cars down in the quickest time and giving the best service. In short, there would be competition in giving the service to the public -- shipping wheat, it might be, or shipping other commodities from the municipalities to the little towns say around Ontario. It would be based on service, and we believe the public are really interested in that. We think a form of competition is necessary in order that service may be given. Under this proposed system the national transportation board would deal with the general matter of fixing the rates that would apply to all transportation.

COMMISSIONER LEMAN: If this service should translate itself into additional cost, would your transportation board have power to limit that class of service which is very costly and might jeopardize the operating results of the company?

MR. TALLON: Well, the transportation board would not be in a position simply to say: You do this, or you cannot do that; they would have to bear the brunt of criticism both parliamentary and national. I think you will find that you have such fact finding bodies at the

present time. They would do a thing when it became obvious it was necessary to be done, and that would of course bring about certain curtailment. We want this industry placed in a position that it is going to give service, that it is going to be so popular that the jobs of our men in five or ten or twenty years will be secure.

SIR JOSEPH FLAVELLE: Have you anything in your memorandum suggesting a pooling arrangement of any kind between the two systems?

MR. TALLON: We have not gone directly into that. What we have done with regard to certain of these side issues which are apart from actual transportation is simply to make suggestions in respect to them. We are frank to say, however, that we are more or less looking at them from the point of view of a third party, because they are not the actual transportation. The creation of a national transportation board with power to do these things, with initiative which they have not now, and to which suggestions and proposals might be made from other sources, would result in a body that could determine whether these things should be curtailed or not.

SIR JOSEPH FLAVELLE: Do you mean that parliament would have to supply the money if the board authorized something which involved a money requirement?

MR. TALLON: We have come to the conclusion that one of the greatest difficulties we are working under is that parliament in past years has approved of things more from the point of view of political expediency than from that of the actual necessities of the situation. We think a body such as this would be in a neutral position and could therefore more effectively judge as to

actual merits of a thing from the standpoint of economic development. Again I might point to the Hydro-Electric Commission of Ontario and the Toronto Transportation Commission; they are types of a more or less self constituted board which does things but is of course always subject to the parent institution.

SIR JOSEPH FLAVELLE: But of course ultimately subject to parliament withholding the necessary money.

MR. TALLON: Yes. Now, Mr. Chairman, we have covered a considerable amount of ground in our memorandum, and we would ask very sincerely that you study it. If there is anything at all we can do to further the work of the Commission, we shall be only too glad to do it.

THE CHAIRMAN: We are much obliged to you, Mr. Tallon.

COMMISSIONER LOREE: You said you were a shop man, Mr. Tallon?

MR. TALLON: Yes.

COMMISSIONER LOREE: Whereabouts were you located?

MR. TALLON: I have my seniority at Calgary on the Canadian Pacific.

COMMISSIONER LOREE: What part of the shop are you in -- car shops?

MR. TALLON: No, machinist.

COMMISSIONER LOREE: I was very much interested in your quotation from Sir Henry Thornton on page 43 regarding the menace of unemployment. I think he puts it very well indeed.

MR. TALLON: Yes. We have also a clipping there from Mr. Willard something along the same line.

COMMISSIONER LOREE: My company, the Delaware &

Hudson, since the beginning of this depression has not discharged a man from its shop service. We are employing our men four days a week, and their rate of pay is on a piece-work basis, 99 cents an hour. So that on an eight hour day, four day week, they are earning \$35.68, and on the basis of the five hour day, at 78 cents an hour, the prevailing rate of wage, they would earn \$31.20. In other words we pay more for the four day week than our neighbours pay for the five day week if they were furnished that much work. We recently had a discussion at Chicago regarding wage conditions, and at that conference the shop men were represented. About 32 per cent of them in the States are organized; the rest are unorganized. No consideration was given in that discussion of the matter of organized labour going to the shops and seeing how it was done or displaying any interest in it; so far as I know it never has been done. There is a complete answer, so far as I can see, to Sir Henry Thornton's proposition. I wondered why it was that it excited no interest at all.

MR. TALLON: Of course you must realize, Mr. Loree, that the discussion at a meeting of that kind pretty much develops as questions arise. The representatives of the various groups at a meeting like that do represent what they find at their own doorstep, and then it is a culmination of many opinions. Frankly I am not familiar with what you are doing, but the point is that you are doing it; on the other hand your successor might not do it. From our point of view the only way you can get it properly is by a certain form of organization and coordination to see that all are

doing it. In other words we have found it necessary to get away from the isolated provincial attitude. While you are doing a wonderful work, your neighbour may be doing nothing at all. The only way to make it fair to the employers is to provide that all the conditions be equal.

COMMISSIONER LOREE: I am puzzled as to why the officers of organized labour do not post themselves as to what is going on in the labour world.

MR. TALLON: They might be well informed for all I know. Generally most of us find we have a real man-sized job to do the things we have in hand. In other words, if I have a problem to deal with, if I have men to represent, I do my best to put their position forward and I really have not time to see what the other fellow is doing.

COMMISSIONER LOREE: Well, it is a serious question we are discussing now.

MR. TALLON: Yes, and I am serious about it.

COMMISSIONER LOREE: One of my neighbours opened their shops on Monday of last week -- they had been closed for nearly a month -- and on Tuesday they put up a notice that they would close the shop on Friday. I do not think they will work it any more this month. They are a next door neighbour of ours; we cross their tracks, and our shops are not far apart. I have struggled with this labour situation for forty years or more, and I am distressed at what I feel to be the lack of a broad interest in the matter or a willingness to try things out.

MR. TALLON: I suppose the people in the shops

figure that living in what they believe is the greatest democracy in the world they should carry that theory out in arranging their affairs with the management; that being citizens of the country, employees of an industry, they should deal with the management of the enterprise for which they are working. Perhaps you are doing better than any of your neighbours, but after all -- without making any reflection -- your policy is a policy of paternalism or autocracy, is it not?

COMMISSIONER LOREE: Not at all.

MR. TALLON: I mean in the actual application, not in the results.

COMMISSIONER LOREE: No, I think not. We have a shop union and they deal with us.

MR. TALLON: Oh well, I am perhaps not familiar with it.

MR. BYER: I understand that one of the things which is characteristic of the Delaware & Hudson Railway, namely the payment of the so-called dismissal wage, was a very serious matter for consideration at the Chicago conferences. I am right in regard to the payment of dismissal wage, am I not?

COMMISSIONER LOREE: Yes. Perhaps you would be interested in that proposition. In eight years we have dismissed only 84 men all told because of the character of the work they were doing being so limited. The reasons for dismissal have been almost always infractions of discipline. When we do dismiss a man we pay him \$15 a week for six weeks if he doesn't find work in the meantime. If he is dismissed for cause he goes, of course, without a recommendation and does not find work

as easily as he otherwise would, but in the main I should say two-thirds of them find work within the six weeks. The effect of the payment of that dismissal wage has been surprising. The point of contact between the company and the men of course is in the shop foremen. That is where the friction arises -- between the man and the foreman. The dismissal wage has resulted in an improvement in the relations between the foremen and the men, and I do not think we will give it up under any circumstances. Further, it is inexpensive; it costs us about \$4,000 a year, which is a bagatelle.

MR. BYER: It serves as an incentive to stabilize employment.

COMMISSIONER LOREE: It does, because the foreman knows that when a man is dismissed we have to pay him this dismissal wage, and we will want to know why he was dismissed. If it is just an exhibition of bad temper, the foreman will go and the other fellow will stay. It has really worked a revolution, and costs almost nothing.

MR. BYER: In connection with our proposal for the creation of an advisory council, it was visualized that this whole matter of employment stabilization would be given very careful consideration and study, and that would include of course precisely such measures, among other things, as have been taken on the Delaware & Hudson. So that if that has not been taken into consideration by the workers in the United States, I think it is safe to say that it has by the workers of Canada.

MR. TALLON: We leave our memorandum with you, Mr. Chairman, for your consideration.

THE CHAIRMAN: Thank you, Mr. Tallon.

MR. G.R. PAWSON (Commercial Telegraphers Union):

Mr. Chairman, Mr. Tallon has stated that there are some recommendations which are not made in any arbitrary sense, and he also pointed out that this brief had been prepared by the strictly transportation group, embracing the running trades and the shop crafts of the two railways. Now, we come into the picture -- I represent the employees of the commercial telegraphers on the Canadian Pacific; and one of the recommendations made by Mr. Tallon and the group he represents is No. 6 on page 52, as follows:

That such services now being operated by the two large railway systems of Canada as hotels and summer resorts, express and telegraph departments and coastwise steamships be operated by separate corporations jointly controlled by both railways, as is now being done with respect to the Northern Alberta Railway, and that their earnings be pooled and shared fairly.

We were not given an opportunity to participate in the preparation of this brief, and while our people most heartily subscribe to its general recommendations with regard to the transportation board and the board of directors and other related matters, we take exception to that particular paragraph in so far as it affects us. We would crave your permission to submit a written statement outlining our position on that point, as to why we do not think the amalgamation of the two telegraph companies would be a good thing from the viewpoint of the public.

THE CHAIRMAN: We shall be very glad to receive



it, Mr. Pawson.

MR. PAWSON: How long will you be in a position to receive written evidence?

THE CHAIRMAN: We ought to have it very soon.

MR. PAWSON: We did not know about this until Saturday. We did not know this submission was going to be made.

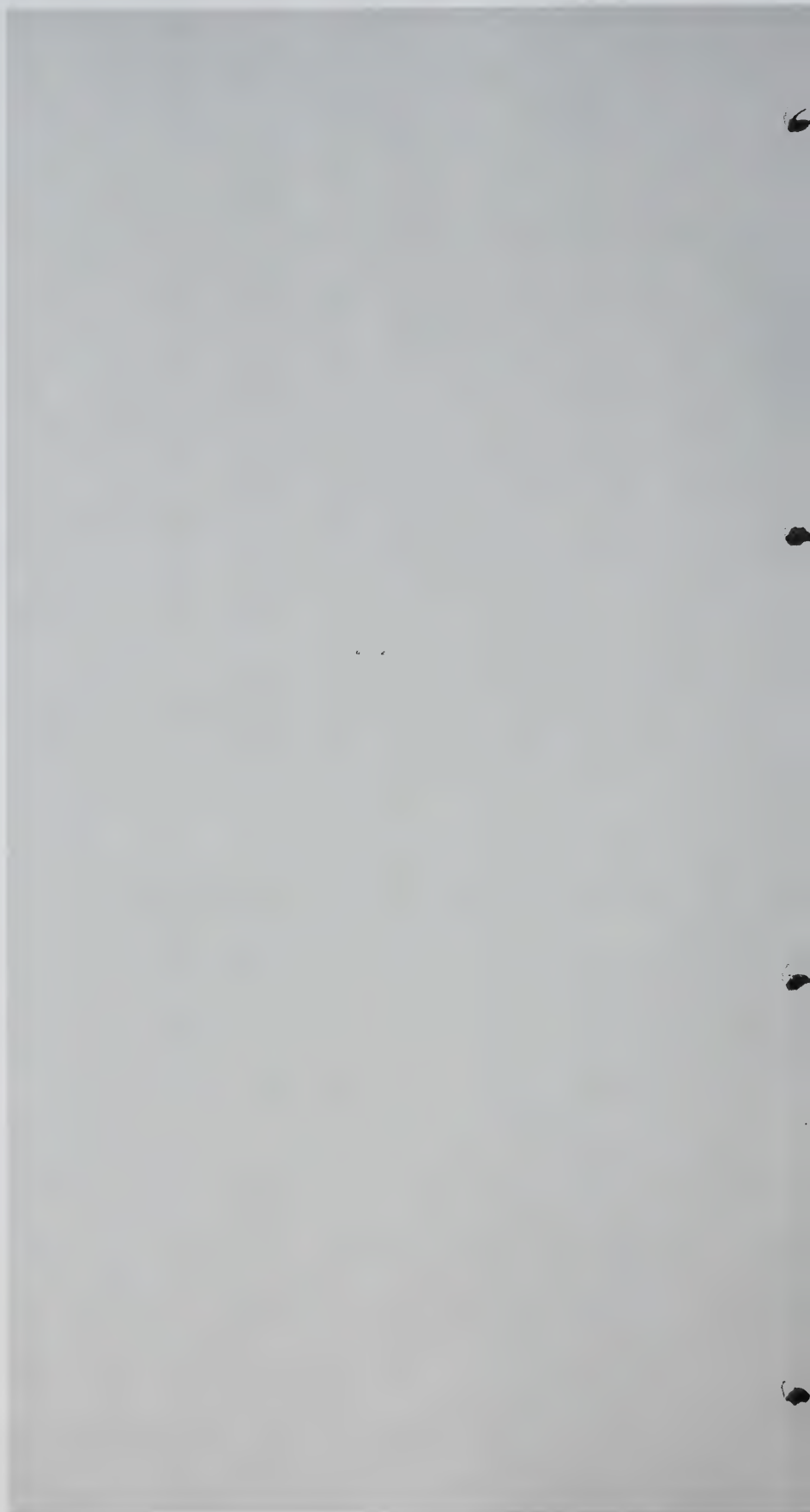
THE CHAIRMAN: Could you prepare it within a week?

MR. PAWSON: Yes, I think I can safely promise it to you in a week.

THE CHAIRMAN: We will give you a week.

At 5.45 p.m. the Commission adjourned.

(Page 1900 follows.)



- 1900 -

Mr. Mosher

EVENING SESSION

The Commission met at 8.00 p.m.

MR. A. R. MOSHER: Your Lordship and Gentlemen: I wish to make it clear first of all that I do not claim to be representing all railway employees in Canada; no individual can properly claim that right. I am here tonight on behalf of the Canadian Brotherhood of Railway Employees, which represents some sixteen thousand railway employees in Canada. It is a purely Canadian organization; and I want to dissociate myself from any presentations that may have been made to this Commission on behalf of railway employees in Canada by United States controlled labour organizations.

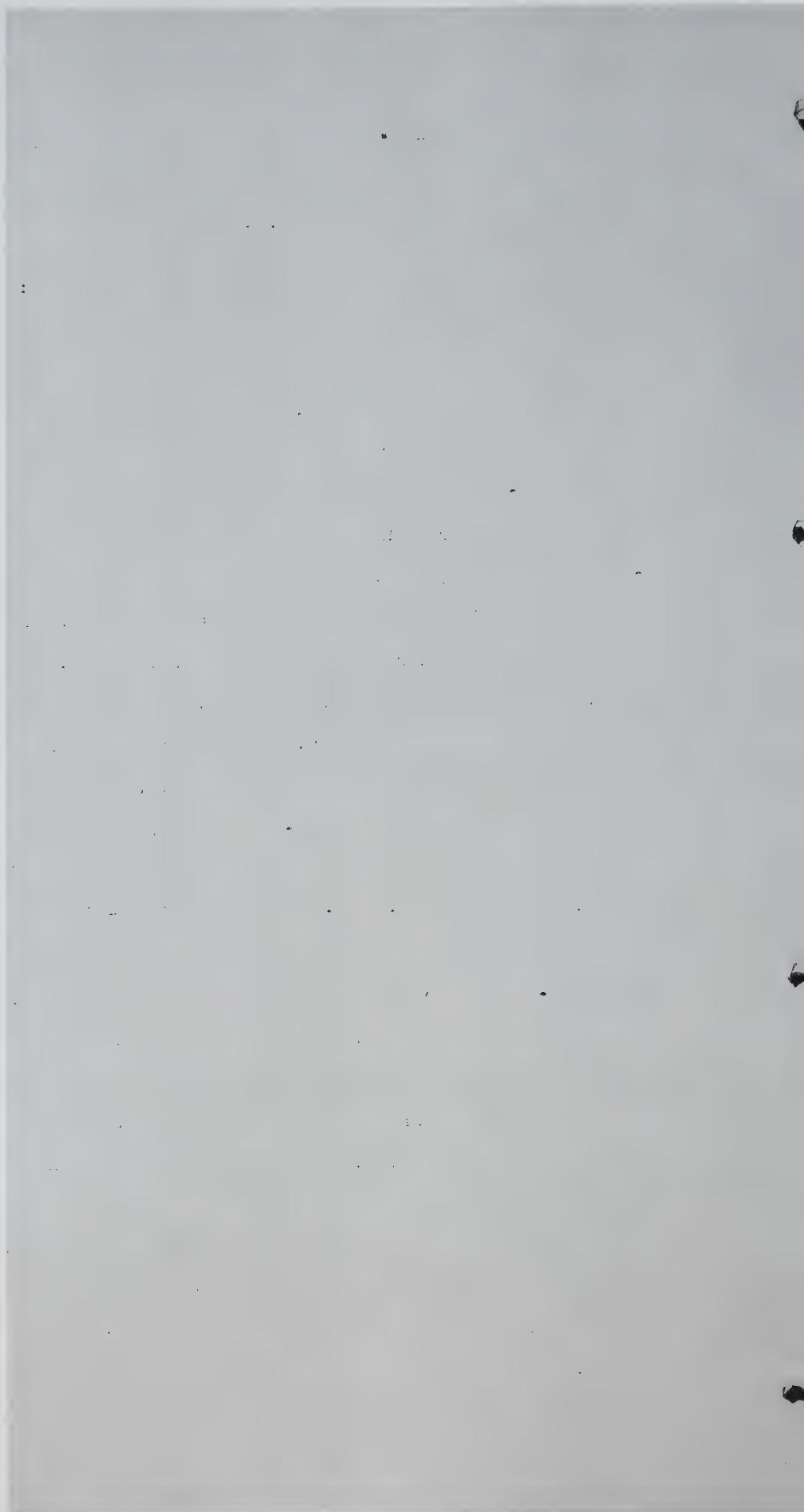
If I have your permission I shall read to you the propositions we have to offer, and the arguments supporting them. If you find those propositions, and the arguments supporting them, somewhat different from what has been previously presented to your Commission, I trust you will believe me when I say they are made by serious-minded men, who have given a great deal of thought to this problem, and who believe they are correct in the conclusions arrived at.

If I have your permission may I sit down and read it?

THE CHAIRMAN: Yes.

MR. MOSHER: A brief submitted by the Canadian Brotherhood of Railway Employees to the Royal Commission on Transportation.

On behalf of the Canadian Brotherhood of Railway Employees, we desire to bring to your attention certain views regarding the problem of transportation in Canada. In our opinion, the transportation problem is a part of the general problem of developing a planned national economy, which will



Mr. Mosher

function in a more orderly manner than that of the existing economic system. If, because of the idea formerly held that competition was the life of trade and the best means of assuring low rates, the railways were originally over-built and committed to the maintenance of over-lapping and needlessly competitive services, it may nevertheless be maintained that the railways have been more conservative in that respect than many, or most, other industries. If idle or partly-used railway equipment means unemployment and waste of both railway capital and labour, idle, or partly-operated factories and farms represent a much greater waste of capital and labour.

The Canadian railways during October, 1931, were employing 133,073 persons, -54,803 less than in October, 1928, and 45,578 less than the average number employed back in the pre-war year 1913. This means that, since the peak of the recent boom period, railway jobs have been reduced by practically 30 per cent, and that the present waste of labour is even greater than 30 per cent, since many workers are employed only on part-time.

Any measures designed to effect further railway economics in the interests of railway capital and at the expense of railway labour cannot provide a satisfactory solution of the problem that confronts the railways or the country at large. A fundamental requirement of an improvement in the position of the railways is the development of a planned national economy, controlled and directed by the conscious purpose of delivering industry and agriculture from the evils of the vicious business cycle, with its disorderly phenomena of booms and depressions, its periodic inflictions of bankruptcy, unemployment, poverty in the midst of plenty, mass

misery, and fear. Given a distribution of national income permitting the maintenance of a proper balance between production and consumption, the present powers of production could be utilized to capacity, and kept turning out such a supply of goods that the railways and other means of transport would have no problems demanding economies at the expense of the opportunities of railway workers to earn a livelihood.

That being the real problem, the only measures of permanent value for the improvement of the transportation situation need to be directed towards the adjustment of the railways and other means of transport to their proper role in the working-out of a planned national economy, with production duly articulated to consumption. The accomplishment of such adjustments is a matter for public enterprise, since private enterprise, when it is concerned with the interests of money rather than men, tends increasingly to defeat its ends, as is shown by the present devastating depression. If progress is to be made in the direction of creating the conditions whereby a solution may be found for the urgent problem of providing additional opportunities of employment for an increasing population, the obvious need is to take measures which will effect the complete co-ordination of all means of transport - railways, motor transports, air services and inland waterway services - under public control and ownership. The central authority exercising control over transportation might even have some supervision over the mapping of highways, since the paralleling of railways by highways has less to do with their adaptation to the service of the general economic interests than with the fact that the railway route offered easy and cheap first-cost construction.

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The railway and motor-transport services should be co-ordinated, because it is impossible to establish conditions of equitable competition between them. Making freight-rates equal would merely give one or the other form of transport opportunity to make unwarranted profits. If the motor vehicle is to be an agent of progress, then the public should have the benefit of the lowest possible rates in the sphere in which it is superior to the railways.

Since the railway rate-structure, to which the whole industrial and agricultural organization has been adjusted, predicates the existence of a transportation monopoly, the railways should control all interurban motor-transport services. Otherwise, there will be danger that motor truck competition, by taking the cream of the traffic, will upset the railway rate-structure and cause serious dislocations in the whole national economy. The tendency of such competition is to force the railways to demand re-adjustments of rates, and to put all commodities on an equal footing. The ton-mile rate on all commodities in 1928 averaged .994 cents. Many commodities paid a much higher rate, but grain in the western division was carried at less than half a cent per ton mile. If the railways, through loss of the higher-rated traffic to the motor vehicles, had to obtain from grain the average ton-mile rate necessary to cover transport costs and a fair return on capital, grain rates would have to be doubled, and that would play havoc with the export grain trade.

The outstanding consideration which demands the co-ordination of railway and motor transport services under national control is the need of protecting the railway freight-rate structure from the pressure of forces tending to produce drastic changes in it. If motor transport is destined to

bring about changes in the railway rate-structure, such changes should be controlled and gradual; otherwise, many producers of basic commodities and raw materials, now enjoying low freight-rates, at the expense of other producers or the consuming public, could not make the necessary adjustments.

The capitalization of the Canadian National Railway system should be written down, if the policies are to be related to the problem of developing a planned national economy functioning in an orderly manner. Certainly the railway workers of Canada have reason to protest that the legacies of high finance and dubious politics should not hang over their heads indefinitely, even as potential burdens. If governments were privy to the wild over-capitalization of these railways, they have the power to recoup the public money they may have helped railway promoters to squander, by taxing the private fortunes made out of railway enterprises. The power of governments to collect taxes has been greatly increased by the extension of the railways, and, at the same time, the railways have served political and social purposes of great importance to governments. The public authorities had better, even in the long-run interests of capital, declare a moratorium on dividends and even on interest, rather than enforce additional moratoriums upon jobs.

Holding the conviction that public ownership and control of all forms of transport is the only policy compatible with the kind of progress which will improve the welfare of the masses of the people, instead of merely serving the desire of the monied interests for unearned incomes, it naturally follows that organized railway labour also holds that it should have permanent representation upon the Board of Railway

REPORT

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Commissioners, and in the direction and management of the railways and other means of transportation, sufficient to enable it to exercise the influence necessary to secure the adoption of policies designed to promote economic democracy, and the realization of an economic system which will provide opportunities for a better standard of living for the masses, with consequent freedom from the miseries, worries and fears imposed by the present system.

Therefore, submission is made, and consideration requested, of the following propositions, indicating the principles that must, sooner or later, be applied, if a cloud-burst of social unrest is not to break over the economic life of Canada:

(1) That all measures and policies looking to the amelioration of the transport situation should fit into a general plan envisaging the eventual unification and consolidation of all forms of transport, - railways, motor vehicles, air craft and shipping using inland waterways - under public control and public ownership.

(2) That, pending the realization of such general plan, measures and policies should be designed to provide for the increasing democratization of the transport industry by the organization of ways and means for the deliberative and conscious co-operation between capital and labor necessary to solve the grave problems of bringing about more equitable relations between them, and thus enable the railway industry to assist in the task of creating the conditions which will make it possible to exercise rational control over the whole economic machine, causing it to function in an orderly manner, instead of running at reckless speed in one phase of the business cycle and breaking down in another, wrecking count-

loss individual plans, hopes and ambitions, throwing millions into the abyss of unemployment, and spreading disillusionment, fear and misery far and wide.

(3) That there should be a legislation specifically providing for the permanent and adequate representation of railway labour upon the Board of Railway Commissioners.

(4) That there should be legislative provision for the adequate representation of railway labour through its organizations on the directorate and management of the railways, to the end that labour should have a voice and influence in shaping general policies, and for the reason that policies in which the interests of capital are the sole or principal aim, and which do not take proper account of the interests of the workers and recognize their importance as a media for the distribution of purchasing power, have, as is now clearly apparent, set up restrictive tendencies which defeat their special purpose of providing returns on capital, and, at the same time, also defeat what should be the general social policy of any industry - an expansion of employment to provide opportunities of livelihood for an increasing population.

(5) That the alienation of the Canadian National Railways from the direct control and fractional ownership of the Canadian public to place it under private control would be a retrograde step, for the reason that with the transformation of private enterprise into corporate enterprise, and the expropriation of small business by big business, the profit motive is no longer a satisfactory actuating principle of the conduct of the railways or any other industry, as the more completely and immediately it is realized, the greater becomes the spread between production and consumption, especially under present conditions when profits taken, not for

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consumption, but to be converted into new capital goods, cannot readily be re-invested profitably, owing to the fact that there are no longer new countries inviting settlement and development on a large scale, and also to the fact that the invention of new-type industries inviting exploitation has not been proceeding as fast as the generation of potential new capital.

(6) That the national interests will be best served by consolidating the C. N. R. and C. P. R. under public auspices, and that the obligation to be assumed on account of Canadian Pacific common stocks should be the rate of dividend American railways are legally allowed to earn, or the average of the dividend paid over the whole period of the present business cycle, for the reason that, while over one-half the C. P. R. common stock, and probably a greater proportion of its other securities, are held by non-residents of Canada, the value of C. P. R. properties has accrued largely from gifts of Canadian money, lands and mines, and through the general agricultural and industrial development arising from the labour of the Canadian people.

(7) That any schemes of co-operation between the two railways designed to effect economies in service should take account of the proper interests of labour, as in the long run capital would be better advised to declare a moratorium on dividends and interest for a certain period in order to permit a greater distribution of purchasing power among the workers, which would thereby increase the demand for consumptive goods, than to enforce further moratoriums upon opportunities of employment. The government railways should set the example of a five-day week as a means of providing much-needed jobs.

(8) That the determination of the spheres of service

of motor vehicles plying for hire, and the conditions of their operation should be brought under the control of the Board of Railway Commissioners, or an analogous body.

(9) That private motor transportation be prohibited from operating in spheres where existing transport facilities are adequate or where the steam railways are willing to provide motor vehicle services which, by being complementary to, or auxiliary to, the railway facilities, may furnish the public with more efficient and economical transportation.

COMMISSIONER WEBSTER: What do you mean by private motor transportation?

MR. MOSHER: Well, trucks used by private concerns to transfer articles.

(10) That all commercial vehicles using the public highways for hire be required to pay fees commensurate with the use and cost of such highways, as well as the depreciation which is caused to a considerable extent by trucks and busses.

(11) That, in the interests of public safety, operators of all motor vehicles be required to pass a qualifying physical examination, similar to that required of operators on railway trains.

(12) That, in the further interests of public safety, operators of motor vehicles be subject to regulations (such as apply to railways) prohibiting excessive hours of duty.

(13) That motor transport concerns be required to furnish a guarantee of sufficient financial responsibility to assure the payment of any claims for damages that may legally be assessed against them.

(14) That where manufacturers, wholesale houses, chain stores or other concerns use their own motor vehicles

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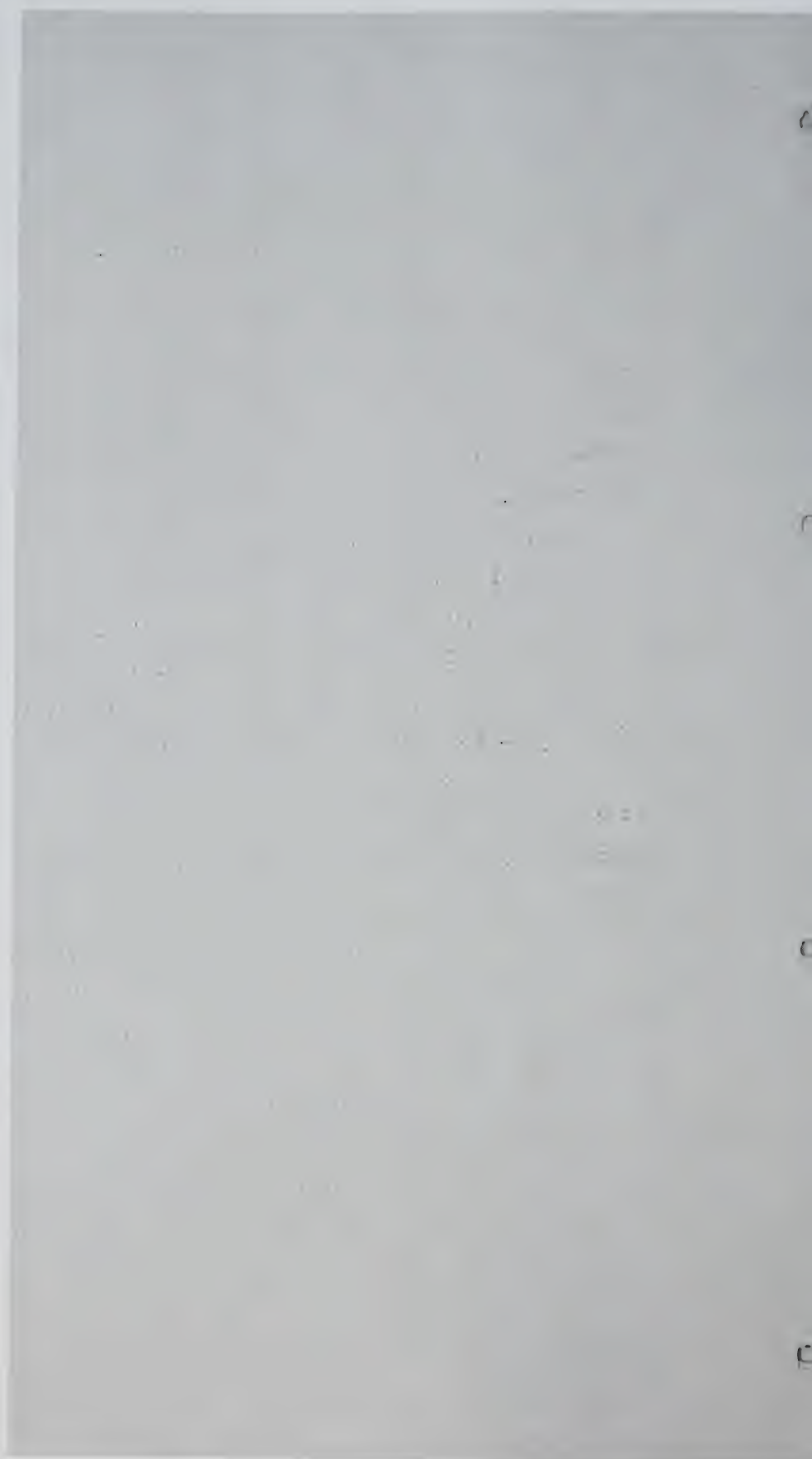
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to distribute their own goods beyond their own urban limits, they should be prohibited from using such vehicles to carry return freight obtained from other concerns.

The principles underlying the following observations in support of the above propositions form part of the programme of the Canadian Brotherhood of Railway Employees. This national labour organization takes the stand that all transportation agencies should not only be controlled but owned by the public. The railways have the character of a natural monopoly, and experience has shown that private ownership of monopolies is not compatible with the best interests of the people. And motor vehicles, plying for hire, while they may not lend themselves to private monopoly, can be operated only on public highways, and are therefore proper objects of public control, and even of public ownership.

The general problem of transportation cannot be isolated from the economic system of which transportation is an important element. In order to organize the transportation agencies so that they will function in a reasonably orderly manner, it will be necessary simultaneously to re-organize the whole economic system so that it will function in a more orderly manner than the present system does.

Many of the present difficulties of the railways are the results of the convulsion from which the economic system is suffering, and if it recovers from the present depression, as it has recovered from recurring disorders in the past, such difficulties will disappear, and the railway situation will be as good as it was during the boom period, if not better. The situation during the boom period was not causing railway security holders or railway executives any special worry, and



The responsibility for the present situation rests less with the railways than with those whose reckless, stock-jobbing schemes and ill-considered diversion of productive surpluses from consumptive channels into productive enterprises incapable of finding markets for their products without driving older enterprises to the wall, brought about over-production in relation to consumptive capacity, and the widespread collapse of industry with accompanying misery for great masses. Even the Canadian National Railways, during the five years from 1925 to 1929, inclusive, had net earnings averaging \$43,409,000 a year, more than sufficient to meet the interest payments on the securities in the hands of the investing public, which payments during the same five years averaged \$41,495,000 per year. But there are other difficulties besetting the railways which are the offspring of the illegitimate union of high finance and low politics, and which can be, and, in the interests of sound public policy, should be eliminated in order that the railways may be placed in a position to play efficiently their proper role in the future development of the Dominion.

The gross over-capitalization of the Canadian National Railways in particular is a matter of special concern to railway workers. That capitalization should be written down to a reasonable figure, for, although the Canadian National Railways may not be meeting all the obligations of their paper capitalization, the huge overhanging liabilities are a menace to the efforts of the railway workers to maintain a decent standard of living. Moreover, the management of the railways, handicapped by uncertainty as to the capital obligations the railways are expected to meet, cannot very well develop new policies, with the assurance that they will meet the require-

1. The first part of the report is a general introduction to the subject of the study. It discusses the importance of the research and the objectives of the study.

2. The second part of the report is a detailed description of the methodology used in the study. It includes information about the sample, the data collection methods, and the statistical analysis.

3. The third part of the report is a presentation of the results of the study. It includes tables and figures that illustrate the findings.

4. The fourth part of the report is a discussion of the results and their implications. It discusses the strengths and limitations of the study and suggests areas for further research.

5. The fifth part of the report is a conclusion. It summarizes the main findings of the study and provides a final statement on the research.

6. The sixth part of the report is a list of references. It includes all the sources used in the study.

7. The seventh part of the report is an appendix. It includes any additional information that is relevant to the study.

8. The eighth part of the report is a glossary. It defines the key terms used in the study.

9. The ninth part of the report is a list of figures. It includes all the figures used in the study.

10. The tenth part of the report is a list of tables. It includes all the tables used in the study.

ments of the future. Furthermore, until the capital obligations are definitely fixed, the question of determining whether rail freight rates are on the best possible economic basis - properly adjusted to the service of the general economic interests of the country - cannot be dealt with in a satisfactory manner, and that is a question of primary importance to all users of railway services, and, in fact, to all sections of the public.

The validity of the reasons why the capitalization of these railways should be "rationalized" is clear enough to nationally organized labour. Canadian railway history is an ugly chapter. In few spheres of endeavour has private enterprise committed more blunders, or abused its opportunities to a greater extent than in railway building in Canada.

To railway promoters, the people of Canada gave cash subsidies totalling around one-quarter of a billion dollars. The Dominion and provincial governments guaranteed bonds of railway companies in the amount of \$603,584,875. In addition, the Dominion government granted the railway companies 31,672,457 acres of land; the Quebec government, 13,625,249 acres; the British Columbia government, 8,223,410 acres; the Ontario government, 3,241,207 acres; the New Brunswick government, 2,085,710 acres; and the Nova Scotia government, 160,000 acres - a total of over 57,000,000 acres, to say nothing of terminal sites and rights-of-way granted by municipalities. This empire of land given the railway companies is almost equal to the area of the three Maritime provinces and New England combined, including the water and waste lands therein. And much of these land grants contained valuable timber and mineral resources, as well as selected farm lands.

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High Finance and Politics

But the railway promoters, in a great many cases, took advantage of the generosity of the public, not to build up railway assets, but to lay the basis of private fortunes for themselves and their political friends. A great part of the railway land empire was disposed of for a song.

The Hon. David Mills, a former Federal Minister of the Interior, criticizing railway promotion in Canada, said:

"Corruption taints the majority of railway enterprises from their inception to completion. Charters are sought, not infrequently, for the purpose of speculation. Sometimes they are used to blackmail existing railway lines. However much a railway is needed, a charter is seldom obtained without difficulty, and stock is bestowed for parliamentary support. The names of well-known railway men are sought to give credit to the projected enterprise; a number of shares are tendered them for their 'eminent' services, and are seldom declined.

"When a railway scheme is finally launched, it finds a large number of friends; engineers and professional contractors, the owners of rolling mills and builders of cars and locomotives, the getter of land grants, and traders in railway stocks, all come to its aid and, it may be, experience its bounty. These constitute the grand army of railway enterprise.

"Besides these, there is a numerous band of camp followers, who expect in various ways to reap where they have not sown, but about whose special services nothing need be said. It is this numerous host of

allies and followers which can kill or keep alive a railway project, and because they have this power, must be paid, that add to the cost of every railway undertaking.

"In order to pay interest upon the bonds or dividends upon the stocks, a railway is allowed to deteriorate. Then come accidents, in which scores of passengers are killed or mangled."

Many of the smaller companies built railways largely at the public expense, for the private purpose of exploiting timber areas or increasing land values; and later when the special purpose had been served to their great private profit, they persuaded the government to take over their railways, usually at a price more favourable to the company than to the public.

All this is pertinent to the question of the capitalization of the railways, the Canadian National Railways especially. The present management and present employees should not be expected to bear burdens representing the legacies of corruption and graft in the past. In the United States, when corrupt promotion and reckless management over-loaded railways with impossible burdens, the security holders paid the penalty of neglecting to properly supervise the management of their property. In this country, the government chose to assume heavy obligations by protecting security holders who tolerated an inefficient administration of railways that brought them to bankruptcy. The close alliance of politics and finance, and the enforcement of a political policy which prevented the railways, during the war-boom period, from raising their rates proportionately with the increase in the prices of industrial

products, no doubt furnished a measure of excuse for that course. But the government which was so generous to railway capital should show an equal regard for railway labour. If the government can squeeze water, graft and corruption out of railway capitalization only at the expense of the taxpayers, there is in that a measure of poetic justice, a proper retribution for the dereliction of the taxpayers in tolerating the illegitimate union of politics and railway finance in the past. At the same time, the enforced contributions to the railways by the public, in addition to the original contributions of subsidies, guarantees and lands, is partly offset by the circumstance that the federal government levies income taxes, and the provincial governments levy succession duties, upon private fortunes founded upon doubtful railway enterprises. The government in any case is partly responsible for the over-capitalization of the railways, since it sanctioned and aided competitive building and tolerated dubious policies and practices; and while it may be impossible to arrive at a completely equitable allocation of the financial obligations which should be definitely assumed by the government, the fact that, in this country of magnificent distances, the railways have played a specially important role in the political unification and general economic development, and thereby have greatly helped to increase the government's taxing powers, warrants the expectation that the governments will definitely write down the capitalization of the railways to a point which will free the railway workers from the fear, not only of not being able to attain a better standard of living, but of having to submit to further reductions of a standard far lower now than what the high productive powers of modern industry would make possible if industry

was efficiently managed in the interests of the masses of the people. And if the owners of railway capital want the present economic system to function in a reasonably orderly manner, and not plunge into the recurring disorders which tend to make it intolerable to the workers, they will be content with moderate returns. If wise in their own long-run interests, they would also write down the value of their securities, as a sign of their willingness to make amends for their failure to exercise proper supervision over the promoters and managers of their enterprises in the past.

Although railway building proceeded in Canada in advance of settlement to a greater extent than in any other country, and there was probably too much parallel construction, in the belief that carrier competition was desirable to hold down freight rates, the continual emphasis on the idea that the country is over-supplied with railways is merely the expression of a defeatist attitude for public problems. The idea that the main trouble is due to over-building of railways is not compatible with the public policy of spending large sums on highways to facilitate the operation of new agencies of transport, or of the improvement of inland waterways. The railways themselves have not accepted the idea as a guide to policy, for since the war they have built over 3,000 miles of new lines.

The Boom Period

During the recent boom period, there was no suggestion of a transportation policy based on the idea that the railways were over-built. On the contrary, it was recognized that the realization by Canadian agriculture and industry of the opportunities of progress and prosperity offering during that period, was made possible by the wide-spread ramification

of railway lines and the efficiency of the railway services. The Canadian Pacific made substantial earnings, and the Canadian National Railways developed an efficiency of organization resulting in rapid increases of net operating income - an income that for five years was more than sufficient to meet the obligations on the securities in the hands of the investing public. And their prospects appeared so good that both systems were led into over-ambitious programmes, including the construction of hotels, steamships, golf courses and pleasure resorts, and the assumption of huge capital obligations, instead of pursuing a policy of conservatism which might have put them in a better position to meet their obligations to labour during the present depression.

From 1926 to 1930, the capitalization of the Canadian National Railways was increased by \$377,000,000 - or at the rate of \$90,000,000 per year. The Canadian Pacific Railway has been regarded as an example of conservative enterprise, but, in proportion to its total capital, it developed during the boom an optimism rivalling that of the C. N. R. Thus the Canadian Pacific investment in railways, stocks, steamships, hotels, golf courses and playgrounds for the wealthy patrons, increased from \$809,000,000 in 1928 to \$951,000,000 in 1930, or at the rate of \$70,000,000 a year. The fact that the Canadian Pacific's fixed charges during those two years increased only from \$15,000,000 to \$19,000,000, indicates that a large part of the new investments were made out of reserves or earnings. But that does not excuse the circumstance that new investments have proved to be unwise from the point of view of railway labour as well as railway capital. The policies of railway industry, and other industries as well, in periods of prosperity, should take account of the fact that

depressions are periodic features of the capitalist system, and make provision for reserves for the protection of wages as well as of dividends, so that it will not be necessary to throw the main burdens of depression upon the workers through wage-reductions, part-time employment, and unemployment.

Increased Efficiency

Though the railways have been over-optimistic in adventuring into subsidiary enterprises, it may be said that in their proper sphere of transportation they have kept in the van of the procession of efficiency policies under the banner of the "new capitalism" or "rationalization." In technical development, the rate of advance by the railways since before the war has not been surpassed, except by a few infant prodigies, such as the automobile industry. The efficiency of the railway per employee in 1928 was more than double what it was in 1913.

In 1913, Canada had 29,304 miles of railways; the freight traffic totalled 23,032,971,000 ton-miles. In 1928, there were 40,001 miles of railways, and the freight traffic totalled 46,363,700,000 ton-miles.

The railway mileage to be operated and maintained increased 40 percent, and the ton-mile traffic increased more than 100 percent. Yet the number of Canadian railway employees in 1928 was actually less than in 1913.

The official statistics of the steam railways of Canada show that the number of employees in 1913 was 178,651; for 1928 the number reported was 187,710. But changes in the classification were made in 1926, by which hotel and other outside employees were included in the number of railway employees. These outside employees in 1928 numbered 11,657.

Therefore the number of employees actually engaged in railway operation and maintenance in 1928 was 176,043. This is 1,667 less than in 1913, and even then the comparison is not exact, since before the war the railways were buying more equipment from outside firms than in recent years, when their policy has been to build as much equipment as possible in their own shops. There was more railway construction in 1913, but that has no bearing on the comparison, since the reported numbers of employees comprises those whose salaries and wages figure in operating and maintenance expenses.

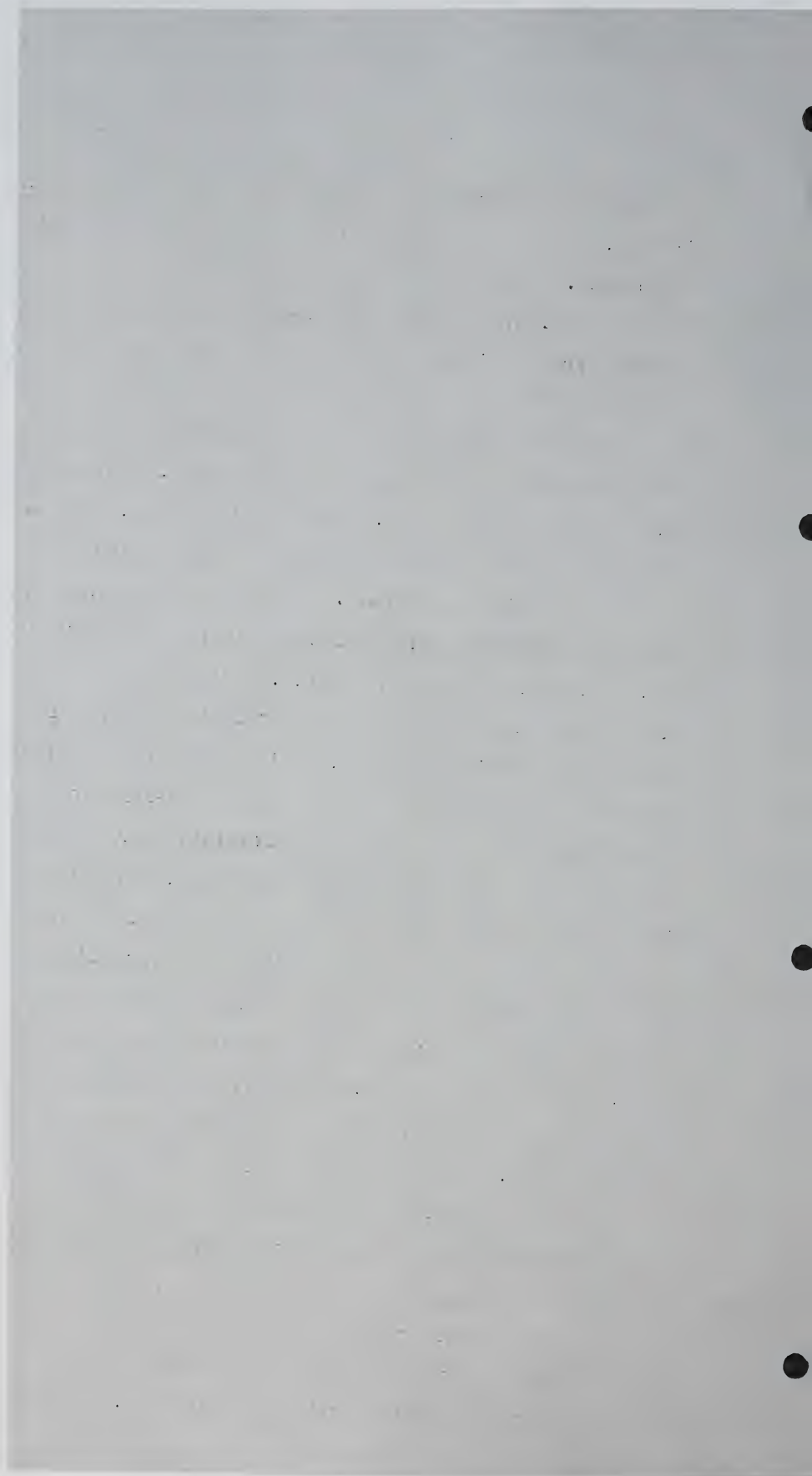
The fact stands out that, with a smaller number of employees, the railways in 1928 operated 40 percent more mileage and handled 100 percent more ton-miles of freight than in 1913. This increase in efficiency per employee was not equalled by the manufacturing industries of Canada as a whole.

Sharp Reductions of Staff

While this technical achievement may be creditable to managerial efficiency, it has a social significance which places the vaunted progress and prosperity since before the war in a less favourable light. If, as is frequently proclaimed, Canada's great need is increase of population, the principal value of an industry is its ability to serve that need by providing the workers with additional opportunities to earn a livelihood. The extensive and important railway industry, which in 1928, a year of record freight movement, employed fewer persons than in 1913, and which today is employing many thousands fewer persons than before the war, has not served an important social requirement of the people, however efficiently it may serve business. In October, 1931, the

two big railways employed 54,800 fewer employees than in October, 1928, a staff reduction in three years of nearly 30 percent.

The increase in divergence of the interests of capital from the interests of the people in general, and the workers in particular, presents a problem which demands attention in shaping the policies and practices of the railway industry as well as other industries. Capital investment in more powerful locomotives, bigger freight cars, heavier rails, may serve the interests of general business as well as the particular capital concerned. But the circumstances that the average locomotive hauled a freight train of 557 tons in 1928, as compared with 342 tons in 1913, an increase of 60 percent, or that the average haul per ton in 1928 was 351 miles as compared with 200 miles in 1913, an increase of 75 percent, while it may mean an improvement in the position of capital at the expense of diminished opportunities for workers to earn a livelihood in the railway industry, does not necessarily prove that transportation requirements are being served in the best possible manner. While huge locomotives and long trains with small train crews may be the most efficient and economical for the movement of such commodities as wheat and coal, they may not serve equally well the requirements of the speedy transport of some other commodities which pay higher freight rates. Rightly or wrongly, motor transport companies claim that one reason why they have been able to cut into railway traffic is that they move small parcels of freight with greater promptness than the railways, because the latter sometimes hold over freight to make up a carload, or to make up a trainload determined by the most economical hauling capacity of the locomotive assigned to move it. It is more than



probable that the Canadian railways, from an equipment standpoint, are not in as good a position to meet the competition of motor vehicles as the railways of England or of European countries, which have not been afflicted with the passion for power in locomotives, size in freight cars, and length in freight trains.

The railways offer a conspicuous example of the rapid growth of capital liabilities in relation to the number of workers employed. Government blue-books show the capitalization of the Canadian lines as follows:

	Millions of Dollars		
	1913	1923	1928
Stocks	759.6	853.2	881.8
Debentures	163.2	531.8	495.1
Funded debt	625.2	1,879.6	2,345.5
Totals	1,548.2	3,264.6	3,722.4

The capital liabilities in 1928 had grown to about $2\frac{1}{2}$ times what they were in 1913, though the number of employees in 1928 was actually less than in 1913. And 1928 was a year of exceptional railway activity, the quantity of freight handled, 118,652,928 tons, being 12 per cent greater than in any other year. The growth of capital liabilities in relation to the volume of employment indicates why technological unemployment has appeared and become chronic.

If the transportation problem is treated as a matter in which the interests of capital are the whole or the chief concern, or as a matter of reducing the cost of the movement of goods in order to add to railway earnings or permit reduction of rates to shippers, the risk is run of intensifying social evils to such an extent as to offset any possible gains.

Proposals for amalgamation of the railway systems, or their closer co-operation, which have been made in the financial press, are obviously inspired by the desire to promote the interests of capital, rather than to serve the need of labour for more employment. Even before the present depression began, the economic system had developed a pronounced tendency to restrict employment, a tendency which now carries the danger of a social explosion, because it is no longer possible for large masses to migrate to new free lands where they may live a pioneer existence, largely supported by wild game and fish. The rage for "rationalization" following the war, produced widespread technological unemployment; many people were out of work even at the height of the boom, and unable to consume the goods being thrown on the market in abundance. Since the depression set in, the restrictive tendencies of the economic system have been made much more manifest. They are shown not only in the curtailment of railway services and the disemployment of 50,000 railway workers. Modern industry seeks to cut out unnecessary movement of goods by linking up the successive processes of manufacture so that the costs of transport to markets may be reduced. By mergers, combines, and agreements respecting the allocation of market spheres, customers may be supplied with goods produced near at hand, whereas under older competitive conditions, there was cross-hauling and carrying of goods for long distances. Lessons in regional schemes of distribution and consequent saving of transport costs, which governments were compelled to teach under the pressure of war conditions, have been learned by private business.

The tendencies which are reducing the amount of transportation effort required to place a given volume of goods in

1. The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that proper record-keeping is essential for the integrity of the financial system and for the ability to detect and prevent fraud.

2. The second part of the document outlines the specific procedures for recording transactions. It details the steps involved in the accounting cycle, from identifying the transaction to posting it to the appropriate ledger account.

3. The third part of the document discusses the role of the auditor in verifying the accuracy of the records. It explains how the auditor uses various techniques, such as sampling and tracing, to ensure that the financial statements are reliable.

4. The fourth part of the document discusses the importance of internal controls in preventing errors and fraud. It describes how a well-designed internal control system can help to ensure that transactions are recorded accurately and that assets are protected.

5. The fifth part of the document discusses the role of the management in ensuring the integrity of the financial system. It explains how management can establish a strong ethical culture and implement effective internal controls to minimize the risk of fraud.

6. The sixth part of the document discusses the importance of transparency in financial reporting. It explains how providing clear and concise information to stakeholders can help to build trust and confidence in the financial system.

7. The seventh part of the document discusses the role of the regulatory bodies in overseeing the financial system. It explains how these bodies ensure that all participants in the financial system are following the same rules and standards.

8. The eighth part of the document discusses the importance of ongoing monitoring and evaluation of the financial system. It explains how regular reviews can help to identify areas for improvement and ensure that the system remains effective over time.

9. The ninth part of the document discusses the role of the public in ensuring the integrity of the financial system. It explains how citizens can use their voice to hold financial institutions and government officials accountable for their actions.

10. The tenth part of the document discusses the importance of education in promoting financial literacy. It explains how providing people with the knowledge and skills to make informed financial decisions can help to reduce the risk of fraud and improve the overall health of the financial system.

In conclusion, the document emphasizes that maintaining the integrity of the financial system is a shared responsibility. It requires the cooperation of all participants, from management and auditors to regulators and the public, to ensure that the system remains transparent, reliable, and free from fraud.

the consumer's hands naturally do not appear favorable to the transport workers who have lost their jobs; but that does not make them bad from all points of view. The "rationalization" of transport is as desirable as the elimination of unnecessary and uneconomic effort in manufacturing or agriculture--provided labour shares in the benefits arising therefrom. Rationalization is a social process requiring the collaboration of labour, and the benefits should be shared socially. Labour should receive its share of benefits in the form of reductions in working hours sufficient to increase the opportunities of employment, or increased wages, or both. But this principle has not received adequate recognition or application in the transport industry.

As a device to cope with the depression, the curtailment of railway services by separating workers from the means of livelihood makes them victims of the disorderly workings of the economic system, and by further curtailing purchasing power over consumptive goods aggravates the complaint from which the system is suffering. In face of the patent fact that the fundamental cause of the economic crisis is the failure to provide for a distribution of earned incomes sufficient to enable consumption to increase proportionately with production, management has, in the name of a short-sighted economy, been busy devising ways to curtail employment and reducing consumption still further--a defeatist policy which cannot solve the difficulties of the railways or any other industry.

From the present ridiculous and tragic dilemma, rationalization of the kind recommended by the bankers, the rigid economizing of the use of human labour, offers no satisfactory way out for the railways or for industry in

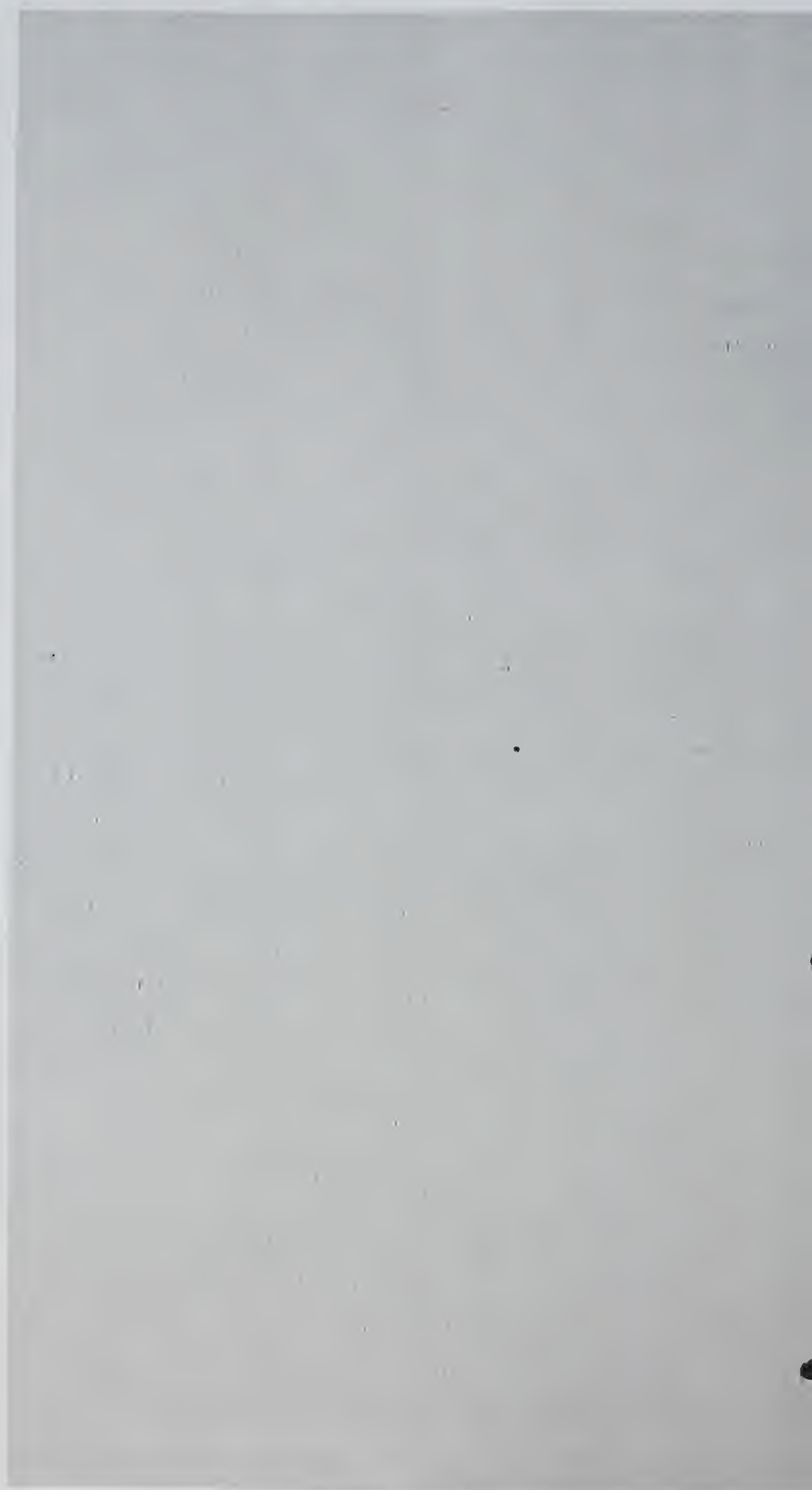
1. *Journal of the American Medical Association*, 1977; 237: 1000-1001.
2. *Journal of the American Medical Association*, 1977; 237: 1001-1002.
3. *Journal of the American Medical Association*, 1977; 237: 1002-1003.
4. *Journal of the American Medical Association*, 1977; 237: 1003-1004.
5. *Journal of the American Medical Association*, 1977; 237: 1004-1005.
6. *Journal of the American Medical Association*, 1977; 237: 1005-1006.
7. *Journal of the American Medical Association*, 1977; 237: 1006-1007.
8. *Journal of the American Medical Association*, 1977; 237: 1007-1008.
9. *Journal of the American Medical Association*, 1977; 237: 1008-1009.
10. *Journal of the American Medical Association*, 1977; 237: 1009-1010.

general.

Thus there is ever-increasing need of a new economic policy designed primarily to provide increasing means of employment and an improving standard of living for the masses, and the example might well be set by the railways after the amalgamation of all of them under public ownership. The needed policy would hardly be compatible with the diversion of capital to some of the uses for which the railways were able to obtain capital during the boom period, such as the provision of hotels de luxe, golf courses and pleasure resorts for the well-to-do. Nor would such a policy be compatible with the railways' general policy in the past, which has served to provide opportunities of employment for capital rather than of employment for labour. For while the employment of capital to provide means of reducing the unit costs of the production of goods or services would always be warranted, under an economic system which assured an equitable distribution of the benefits arising from increased efficiency and economy among the workers and consumers, under the present system, the methods of economic organizations developed in conjunction with the technical developments which reduce the amount of effort necessary to produce a given result, tend to defeat the ends which make the saving of effort desirable, and to cause technological unemployment.

Employee Representation

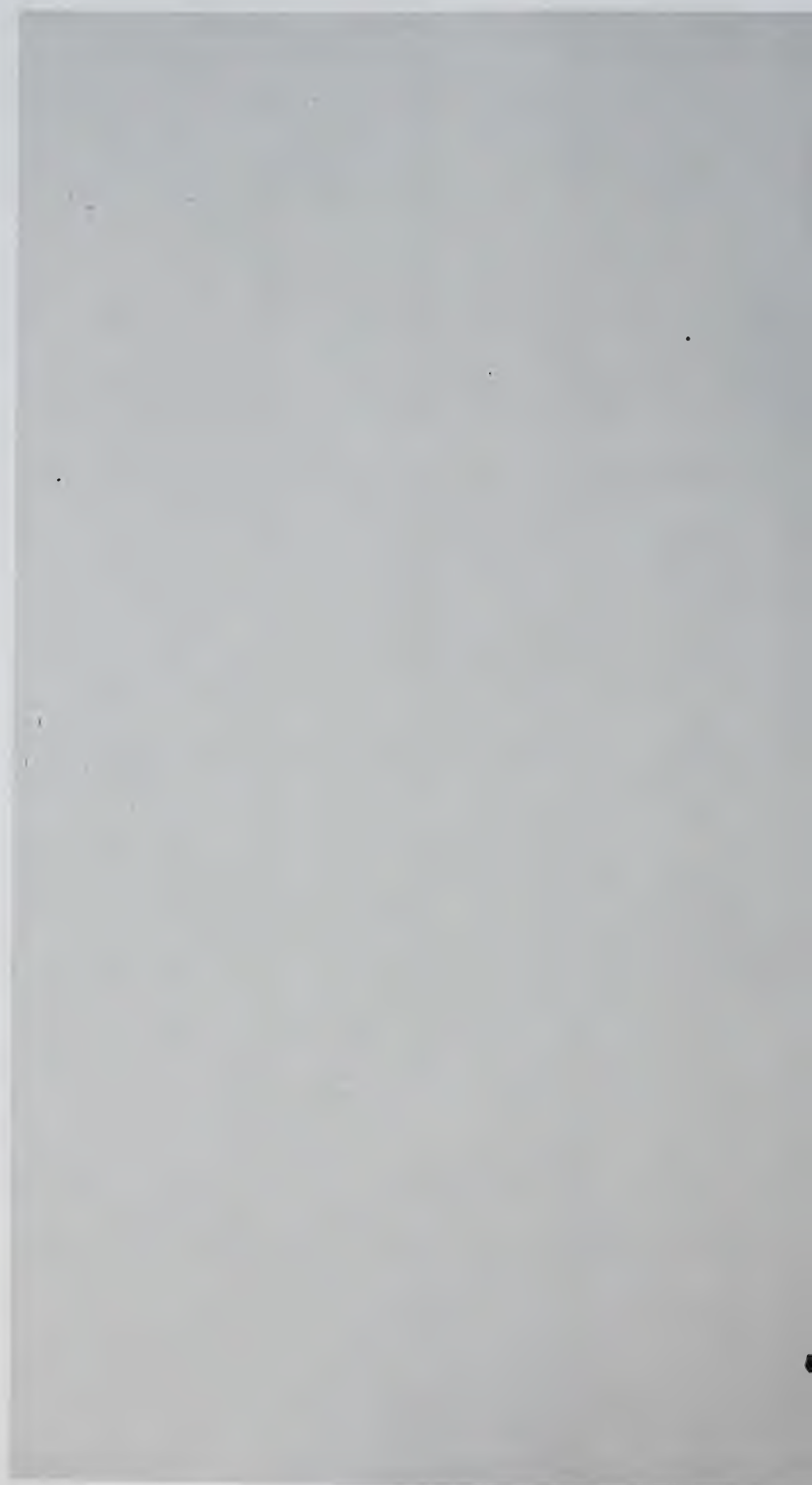
Since the main cause of depressions is the failure of capitalist policy to establish and maintain a proper balance between productive capacity and consumptive capacity, and since therefore the major requirement is a new policy which will moderate the excessive emphasis upon the interests



of capital, and meet the need for greatly increased purchasing power by providing for the realization of the proper interests of the workers in their role as consumers, we hold that the organized railway workers should have some form of representation in the councils and the administration of the railways, enabling them to exercise some influence in the determination of the policies to be adopted in the future.

The Canadian National Railways have recognized the right of labour to a certain representation by the introduction of a plan of management-labour co-operation in its construction shops; but such limited collaboration is not enough. If economic policies capable of controlling the economic machine so that it will not plunge periodically into the ditch of a depression are to be developed and applied, the workers who suffer most from depressions and have the greatest interest in the problem of bringing the business cycle under orderly control, have an obvious need and a right to a voice in determining the policies of the railways and other industries as well. Economic democracy is essential to a realization of real political democracy.

The rationalization of railway activities will probably be pursued with as much vigor in the future as in the past, and it is of great importance that labour should have something to say about the ends that may be aimed at, since rationalization with no other aim than the immediate interests of capital, tends under present conditions to set up restrictive forces, which run counter to the interests of the workers, and everybody else who may happen to be more interested in the increase of the purchasing power of the masses than the profits of a small class.



From the purely humanitarian point of view, there is good reason why labour should claim a voice in shaping railway policies, since with all the big capital expenditures on bigger and better equipment, the speed-up policies necessary to secure the most economical operation of such bigger and better equipment have more than offset the good effects of "safety-first" education, and the toll of life and limb among the workers who operate the railways has, despite the doubtless good intentions of directors, management and shareholders, mounted alarmingly, as the following figures show:-

	Railway Employees	
	Killed	Injured
1915	115	2,573
1919	197	6,349
1920	167	7,719
1921	156	6,583
1922	122	8,361
1923	167	9,382
1924	127	8,862
1925	105	8,256
1926	127	10,622
1927	131	11,057
1928	140	12,626

Railways and Highway Competition

The substitution of co-operation for competition is being urged upon the Canadian railways, and, if that is good policy, co-operation between all forms of transportation would be equally good.

THE CHAIRMAN: Where are these figures taken from? Are they taken from the Bureau of Statistics?

Mr. MOSHER: From the railway statistics.

The CHAIRMAN: From the Bureau of Statistics?

Mr. MOSHER: From the Bureau of Statistics.

The CHAIRMAN: I suppose those injuries include

injuries which are unimportant as well as grave injuries?

Mr. MOSHER: All injuries that have been reported.

COMMISSIONER WEBSTER: Are those Canadian lines in Canada, or do they include Canadian lines in the United States?

Mr. MOSHER: Canadian lines in Canada.

COMMISSIONER WEBSTER: Just Canada.

Mr. MOSHER: Just Canada.

COMMISSIONER LOREE: Do you happen to remember what the definition of an injury is?

Mr. MOSHER: Well, it would be an injury that would throw an employee out of employment; he would have to quit work.

COMMISSIONER LOREE: For how long?

Mr. MOSHER: For probably a week or more.

COMMISSIONER LOREE: The reason I ask you is because it is different in different countries. In the United States it is two weeks.

Mr. MOSHER: In this country it is a week.

The logical extension of a programme which is being more or less consistently followed would lead to the complete co-ordination of all means of transport, railway, motor vehicles plying for hire, airways and canals, under public control and, preferably, from the labour point of view, under public ownership. That is the goal envisaged by the Canadian Brotherhood of Railway Employees, and of the International Transportworkers' Federation, of which it is an affiliate.

Competitive railway building in Canada did not realize the hoped-for reductions of freight rates, but rather, by the piling up of capital burdens, tended to raise them. Regulation and control through a railway

commission was therefore adopted.

In England, competition between railways and motor vehicles has not proved satisfactory, and there has recently been a large-scale merger of railway and motor vehicle interests with the object of bringing about close co-operation between the two transport services. In other European countries various schemes of co-operation are being substituted for competition.

Proposals based on the assumption that, by applying certain regulations, equitable conditions of competition between the two forms of transport can be established, and that they they can safely be left to fight it out, evade the issue. Rate wars will not settle transportation problems any more satisfactorily than military wars settle international problems. The establishment of equitable conditions of competition is out of the question. Railways in Canada were not built for the sole purpose of moving freight and passengers. Military considerations determined the route of the old Intercolonial; political considerations entered into the construction of other railways, and the railways still are subject to a variety of obligations of a political, economic, strategic, or social nature; such economic obligation as carrying export goods at lower rates than domestic goods, and such social obligations as serving as a means of colonization and settlement. Motor transport undertakings are free from such obligations. There are other obligations resting upon the railways that do not exist for motor vehicles, such as carrying raw materials and basic commodities at rates near or even below the operating cost of transport, and providing scheduled services.

While the railways may not change their rates without

due notice and the sanction of the Railway Commission, the motor truck driver may make his contract on the curb. Furthermore, the trucks are free to select the cream of the traffic. They are not compelled, like the railways, as common carriers, to take all business offered, regardless of weather, blizzards or floods, or how unremunerative the rate may be. They can cut rates to any figure to secure return loads, while the railway rates are fixed by law and are the same to all shippers.

Conditions of fair competition would not be established by requiring the motor vehicle undertakings to pay what might be regarded as a fair rental for the use of the public highways and obliging them to charge the same freight or passenger rates as the railways. Other necessary conditions would be that the motor vehicles maintain regular services throughout the winter, and haul grain, ore, coal and sand, etc., over vast distances at low rates.

Canadian climate and geography make it impossible for motor vehicles to become substitutes for the railways. They should therefore be regarded rather as auxiliaries. They are evidently better adapted to the provision of some transport services than the railways are, and it would not be sound policy to try to keep them out of the special sphere where they may give more efficient and economical service to the public than the railways are able to do, provided they are operated under proper regulations, are able to maintain regular services throughout the winter, and do not offer a kind of competition that tends unnecessarily to cripple the railways in the performance of the common-carrier duties imposed by law. The fact that the motor vehicles are ready to handle such traffic at reduced rates to shippers is not

necessarily a sufficient reason why they should be permitted to do so where the railways are able to handle such traffic with reasonable despatch. The railway rate-structure is based on the idea that transportation is a practical monopoly, and that the general economic interest is best served by obliging the railways to carry low-priced bulky raw materials and basic commodities at very low prices, and allowing them to charge high rates on high-priced commodities. The whole agricultural and industrial structure of the country has been adapted to the railway rate-structure and if the motor vehicles are allowed to take the cream of the traffic, the railways cannot continue to carry raw materials and basic commodities at the present low rates. Motor vehicle competition thus carries the menace of an upset of the principle on which the railway rate-structure is based, and with it the menace of a dislocation of the whole economic structure of the country, which would spread ruin in many communities. This danger is another reason why all the means of transport should be co-ordinated under public control and ownership.

In proportion as high-paying freight is lost to motor vehicles, the railways will need to make good the loss by increases on basic commodities, but the rates on some or most basic commodities cannot be raised very much without the loss of traffic in such commodities. For instance, grain in the western territory is carried at an average ton-mile rate of about one-half a cent, while the average ton-mile rate for all freight is about one cent, and for some commodities is two or more cents.

The railways cannot hope to offset loss of the more

profitable traffic by rates on grain approaching the average ton-mile rate, because such an increase in grain rates would probably destroy the export grain trade. Unlimited motor vehicle competition would tend to bring about an impossible condition for producers of basic commodities as well as for the railways.

For these and other reasons, competition cannot be a satisfactory method of determining the respective spheres of motor vehicle and railway transport. This determination should be a rational procedure, a matter for the decision of a public body, preferably the Board of Railway Commissioners, which should also lay down the conditions of operation of motor vehicles in the spheres to which they may be assigned. In spheres where the railways are willing to operate motor vehicles they should have a prior right to do so; and since competition is no more desirable between two or more railways than between the railways and motor vehicles, the railways should be obliged to co-operate in the provision of motor vehicle services, wherever such co-operation is feasible and calculated to be in the interests of the public.

COMMISSIONER LOREE: In 1830 the Bank of England discount rate was four per cent. In 1930 the Federal Reserve Bank discount rate was 1-8/10 per cent. Thus capital in 1930 was earning 54 per cent less than it earned in 1830, which would not seem to indicate that capital has done very well by itself.

MR.MOSHER: It would indicate what?

COMMISSIONER LOREE: That capital had not been able to do very well by itself.

MR.MOSHER: That is quite true, and----

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Mr. Maclean
Mr. Mosher

COMMISSIONER LOREE: In 1830 a locomotive engineer worked twelve hours a day and ran a ninety-mile trip, and worked in the shop putting his engine in shape. In 1930, a locomotive engineer worked eight hours a day. In 1830 he was paid \$5.25 a week. In 1930 he got thirteen times that much. He got a reduction of thirty three per cent in his time and in increase in wages of over twelve hundred per cent. He did pretty well, didn't he?

Mr. MOSHER: Yes, that particular individual did, but there are not very many of those individuals in the Dominion of Canada.

COMMISSIONER LOREE: They get even higher wages in Canada than they do in Great Britain.

Mr. MACLEAN: You do not suggest that capital should be increased as the years go by? They start in in 1830 at one per cent, and increase each year by one per cent--

COMMISSIONER LOREE: I showed by the experience of 100 years that the earning capacity of capital had not increased; whereas labour had increased its earning capacity over 1200 per cent.

Mr. MACLEAN: So far as Canada is concerned, I think it can be stated that the interest rate on capital is not 1.8 per cent. I think at the present time the governments are paying $5\frac{1}{2}$ percent and 6 per cent.

COMMISSIONER LOREE: That is a question of credit. A man who has not a very good credit pays a high price, because he pays not only the interest, but for the risk. I am talking about high class credit.

Mr. MACLEAN: During the last few years the C.P.R. paid as high as 10 per cent on its common stock, which had a par value of \$100; and a great many other instances might

be cited where the rate of earning on capital are even higher than that.

COMMISSIONER LOREE: I am talking about big institutions like the Bank of England which have had a wide experience covering years. Of course, some concerns pay ten per cent. I do not think those isolated cases can compare with an experience such as I have mentioned.

MR.MACLEAN: I do not think that the rate of interest allowed by the Federal Reserve Bank of the United States has any bearing on the situation here.

COMMISSIONER LOREE: We get most of our money from down there, don't we?

MR.MACLEAN: We have had something like four billions of dollars of United States capital merged into Canada in the past fifteen or twenty years; but I think it will be found, if the records are gone into, that we have paid a good deal more than 1.8 per cent for that capital. I believe you will find that it averages nearly six per cent rather than 1.8 per cent. However, that is a matter of record, and I believe it is possible for this Royal Commission, if I may suggest it, to get the figures from the records, which are available, to bear out the statements which I have made. After all, we are not here suggesting that railway labour should be paid more at the present time, or that capital should be paid less. What we are saying is that the manner in which the present economic system functions prevents it from providing jobs for those who are living in this country; and with less jobs provided and a corresponding drop in purchasing power assured thereby, there is not much possibility of increasing your railway industry or any other industry in this country.

COMMISSIONER LEMAN: Is not that condition world-wide?

MR. MACLEAN: Yes; and that is all the more reason, I suggest, why we should endeavour to make some attempt to meet the situation.

COMMISSIONER LEMAN: What are the remedies you suggest?

MR. MACLEAN: We put them before you, sir, in our brief, and my suggestion is that you study it carefully.

SIR JOSEPH FLAVELLE: The existing publicly owned property is not earning anything at all on capital investment.

MR. MOSHER: To what are you referring?

SIR JOSEPH FLAVELLE: I am speaking about the Canadian National Railways, which has not earned anything at all on capital investment.

MR. MOSHER: I think we have shown, Sir Joseph and gentlemen, that from 1926 to 1929, inclusive, that the Canadian National Railways earned sufficient over and above its expenses to pay forty three millions of dollars approximately, or to have that amount available to pay the interest due on the bonds in the hands of the public.

Now, I submit that out of a total of four hundred millions of dollars earned by the Canadian National Railways, forty-three millions was a very fair amount of money to have earned on the operating revenue. That money was available for the payment of the interest due on the bonds in the hands of the investing public.

SIR JOSEPH FLAVELLE: If you take the whole thirteen years in which the Canadian National Railways have been

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Mr.Mosher
Mr.Maclean

operated by the public you will find that it has not paid a penny on the money invested. Since 1918 when the publicly owned property was taken over it has not paid a penny on the money invested.

MR.MOSHER: What do you refer to, Sir Joseph, when you say 'publicly owned property'? Do you mean the Canadian National Railways?

SIR JOSEPH FLAVELLE: I mean those railways that enter into the Canadian National Railways. You remember the first branch taken over was the Canadian Northern, then the Grand Trunk was taken over, and they were operated on behalf of the government by the then existing boards until 1923. Over that period enormous government capital, consisting of hundreds and hundreds of millions of dollars was poured into them, and this new capital has not earned a penny.

MR.MOSHER: Was it not the fault of the condition in which private ownership had left many of those railways?

SIR JOSEPH FLAVELLE: I do not know. Let us take this situation: You have a great railway system employing a large body of people and carrying a great quantity of freight, and it does not return one dollar for a dollar spent.

MR.MOSHER: That is quite true.

SIR JOSEPH FLAVELLE: It is not a question of capital. Over this whole period the government has not received anything at all.

MR.MOSHER: That is quite true.

SIR JOSEPH FLAVELLE: It cost more to carry a ton of freight and a passenger than was received for it. That is the story of the Canadian National Railways over thirteen years.

-1935-

Mr.Mosher
Mr.Maclean

MR.MACLEAN: Up to what time?

SIR JOSEPH FLAVELLE: Up to now; and I am afraid that there was no adequate depreciation charged in those excellent years.

THE CHAIRMAN: The whole thirteen years?

SIR JOSEPH FLAVELLE: There were one or two individual years in which there was something to pay the interest on the funded debt, but that was only for a very short period.

MR.MOSHER: It was a period of five years.

COMMISSIONER LEMAN: Over those years they operated on the public credit, and not on the credit of the railways in any way, shape or form.

MR.MACLEAN: That may be quite true.

COMMISSIONER LEMAN: It is actually true.

MR.MACLEAN: But that doesn't alter this fact at all; so far as the operating expenses are concerned, the railways from 1925 to 1929 were living within their income, and had some to spare. It does not alter the fact that during the whole period there was no greater proportion of that total revenue put into railway labour than in any other industry in Canada.

COMMISSIONER LEMAN: We are not discussing the relative remuneration between capital and labour. During those profitable years you mentioned, the railways borrowed more from the government than they actually took in, and if it had not been for the government, they would not have been able to operate.

MR.MACLEAN: Won't you agree this money was borrowed with the expectation that it would pay a dividend or interest

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Mr. Mosher
Mr. Maclean

COMMISSIONER LEMAN: That may be so; but what are the facts?

MR. MACLEAN: The same thing applies to a great many industries. If you say there are too many railways in Canada, you can say the same thing regarding factories. There are far too many factories, and they are working short time just the same as the railways are, and some of them are closed down. You can say the same thing with regard to agriculture. There are millions of dollars idle so far as agriculture is concerned. Is not that so?

SIR JOSEPH FLAVELLE: If you get the figures for the years that you believe have shown a surplus, you will find that that is before rentals and taxes and other items are charged. There is just one year during the whole thirteen years when there was a surplus, and then you must take into account the liberal system of bookkeeping that was in vogue, which provided a minimum charge for depreciation, and in some cases there was no depreciation allowed at all. Over the whole period we did not get a good dollar back for a dollar that was spent, and nothing at all for capital. The government paid all those charges, and the money went either to increasing the debt or an absorption of the taxes that were collected from the community.

In presenting the case from the standpoint of national betterment in a great emergency, the publicly owned property running alongside a privately owned property, has not earned one good dollar to take care of a dollar expended to carry freight and passengers.

MR. MOSHER: Take into consideration the fact that the publicly owned property was property that the public had

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Mr.Mosher
Mr.Maclean

to take over because of the bankruptcy of private concerns who had built those roads.

SIR JOSEPH FLAVELLE: But you got them for nothing, and you could not get back a dollar for the dollar you spent for the purpose of carrying freight and passengers. When you suggest a revision of the whole system under the same type of management and administration, you trouble those of us who are not thinking of capital and labour, but who are thinking of what is good for the whole country.

THE CHAIRMAN: I am afraid there is one difficulty we have to contend with, and that is you cannot make the whole thing over as if you were starting afresh. Perhaps if you had much money to invest you might make a very much better job.

MR.MOSHER: Do I gather from the suggestion of Sir Joseph that if the present publicly-owned railways were operated by private concerns they could make more money than is being made under the present management?

SIR JOSEPH FLAVELLE: You were simply urging the public operation of all railways, and I am showing to you that the railways which are publicly operated cannot get back as much money as they spend in wages and coal.

MR.MOSHER: That is quite true, but when you consider the fact that railways were not built for the purpose of earning dividends on capital, at least, a great part of them were not built for that purpose. Take the Intercolonial Railway, and other lines. They were not built for that purpose only, the earning of dividends on capital expended. They were built for military and other purposes.

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Mr. Mosher
Mr. Maclean

SIR JOSEPH FLAVELLE: From the time the Intercolonial was built it has never earned what it cost to carry products.

MR. MOSHER: That is quite true.

SIR JOSEPH FLAVELLE: In nearly forty years of operation it has never earned a penny. As a government-owned property, it has never earned the expense of carrying freight and passengers.

MR. MOSHER: That is quite correct, and so long as the government insists that it haul freight over its lines at less than the cost of carrying it, there will be no change in that situation.

SIR JOSEPH FLAVELLE: That is one of the troubles with government-owned property.

MR. MOSHER: Not necessarily; it might apply to the C.P.R.

SIR JOSEPH FLAVELLE: No. What has happened in the East? At the present time the government pays the Canadian Pacific the sum of twenty per cent which they take off the freight rates for the purpose of endeavouring to get products to go west. They pay the Canadian Pacific in cash for that portion which they legislate is not to be charged to the customer. That is one of the difficulties with a publicly-owned property. For the purposes of political considerations, governments do that kind of thing, apparently; although as far as that particular property is concerned, it has carried all the passengers and freight during those years of operation and has never returned a penny on all the money that went into it, and the same thing applies to interest as well.

MR. MACLEAN: Sir Joseph, I hope you are not charging

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Mr.Mosher
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that to public ownership.

SIR JOSEPH FLAVELLE: I do.

MR.MOSHER: So far as the C.P.R. is concerned, you must remember that the Intercolonial and the C.N.R. were subject to rates set by the board, and we say to you during the boom period after the war, the railways would have been able to earn a far better return on investment had the railway rates been increased---

SIR JOSEPH FLAVELLE: Surely.

MR.MOSHER: ----to the same extent as private industry was able to increase prices on commodity production.

SIR JOSEPH FLAVELLE: There is no doubt about that.

MR.MOSHER: You cannot charge that to public ownership of railways in Canada, the fact that it has been impossible for the Canadian National Railways to earn a dividend since 1918 when all the consolidations took place. You must remember, as I think you all do, the condition of the Grand Trunk Railway when amalgamation took place. You must remember the condition in which the Canadian Northern was found when that amalgamation took place. You have heard Sir Henry Thornton, and you have heard other people in this country, who remember the condition the railways were in far better than I do, tell you just exactly the condition of these railways that were taken over by the public.

SIR JOSEPH FLAVELLE: They needed great expenditure.

MR.MOSHER: They needed great expenditure to put them into shape where they could haul anything.

SIR JOSEPH FLAVELLE: And it has all been made.

MR.MOSHER: It is in a good condition to-day.

SIR JOSEPH FLAVELLE: A bad condition was made into a

good condition, and it has not returned a penny.

MR.MOSHER: By the expenditure of more money, of course.

SIR JOSEPH FLAVELLE: By the expenditure of more money.

MR.MOSHER: How else could it have happened?

SIR JOSEPH FLAVELLE: There have been no earnings on that money, and no earnings on the original money.

MR.MOSHER: Let us look at that, Sir Joseph. In 1918 if the bankrupt Grand Trunk Railway, and the bankrupt Canadian Northern railways had been placed in the hands of private ownership instead of in the hands of the government what would have been the situation? Do you suppose it would have been any better?

SIR JOSEPH FLAVELLE: Let us look at that for a moment, because we know what happened. The ownership of this huge system of railways by the country is one of the war relics. We were at war; we had never borrowed a penny of money in Canada until 1915. We were suddenly confronted with immense responsibilities to discharge our war debts. We could not borrow anything in New York; we could not borrow anything in England; we could only borrow at home. Now, whether the government of the day was right or wrong is not in question. In their wisdom, they decided to take over those roads rather than put them in the hands of a receiver. That is the reason they were not thrown into the hands of a receiver. There was one thing that the government had to preserve during the war, and that was its credit. The war had to be carried on, and the country had to have credit. The government of the day believed the way that credit could be sustained was to meet the heavy and important obligations that devolved upon it, and



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Mr. Mosher
Mr. Maclean

they took over the railways. The government had already guaranteed a very considerable portion of the securities that were outstanding, which they would have had to pay in any case.

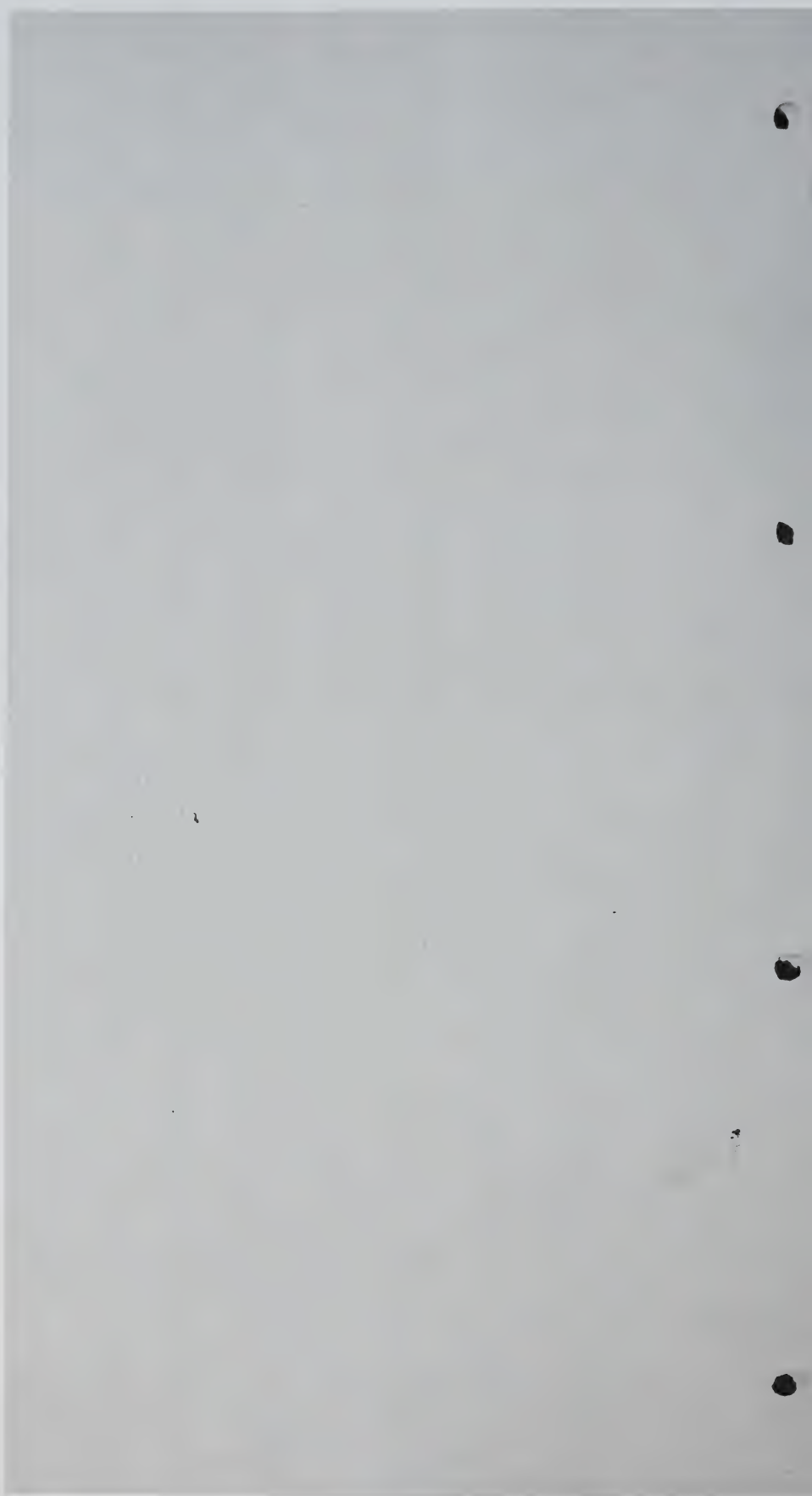
COMMISSIONER LEMAN: There was the question of the responsibility of the provinces, which you must remember.

SIR JOSEPH FLAVELLE: Yes. I am not contending for private or public ownership. I am endeavouring to get at the truth like you are, and like the rest of us; but the fact remains in all this period from 1918 to 1930, if you put the debits and credits together, there has never been a cent earned to pay the coal and oil and wages. And now, are you going to suggest that all the roads should be put in the same condition?

MR. MOSHER: It seems to me, Sir Joseph, you are drawing an absolutely unfair comparison. By your statement you indicate to me that it is because of public ownership they are in this condition. We contend it is because of private ownership that they are in this condition, and that if the public were operating the Canadian Pacific and other railways in this country, they could make them just as efficient and just as profitable, and probably more so, than the present management of the C.P.R.

SIR JOSEPH FLAVELLE: You and I will not argue, because neither of us would get anywhere. One of the objections is that politics play an important part in public ownership, and politics brought into the administration of business makes business die.

MR. MOSHER: I can only make this observation in reply to that: I think there is just as much politics in the



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Mr. Mosher
Mr. Maclean

privately-owned Canadian Pacific Railway to-day as there is in the Canadian National.

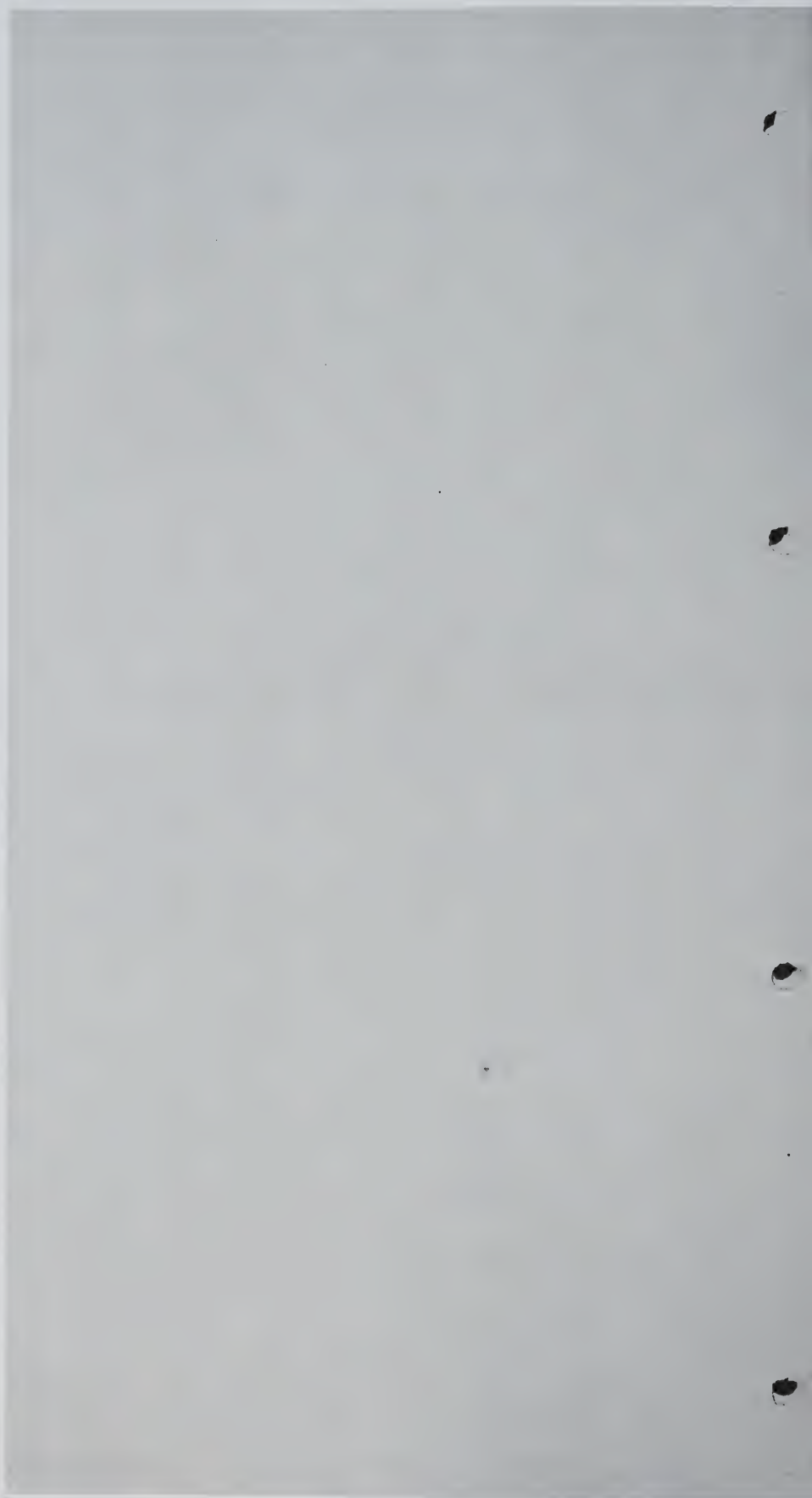
SIR JOSEPH FLAVELLE: You have just as good a right to your opinion as I have.

MR. MACLEAN: There is just a further point I desire to make; Sir Joseph was speaking about the question of the railways being taken over during the war period. I have heard it suggested, I do not know with what degree of accuracy, that one of the reasons why the Canadian Northern was taken over at that time was because the Canadian Bank of Commerce was heavily interested.

SIR JOSEPH FLAVELLE: That is very interesting.

MR. MACLEAN: I think probably it is true. Let me say further, Sir Joseph, that so far as the question of public versus private ownership is concerned, Mr. Mosher has very well observed that it is arguable that the ills of the railways to-day, and private business as well, are due to the fact that they have been badly managed. It is probable the management is just as bad under private ownership as it could possibly be under public ownership. There are more reasons than one why we should hope that all kinds of productive business might find a new lease of life under a different form or system than we have followed in the past. I do not think it could be any worse. We cannot hope to do any worse than we have done in the past, so far as private business is concerned.

COMMISSIONER LOREE: Let me look at that for a moment. I start a train out of New York state and run it south. It runs down the valley of the North Susquehanna river, a fifteen foot grade with a very easy curvature.

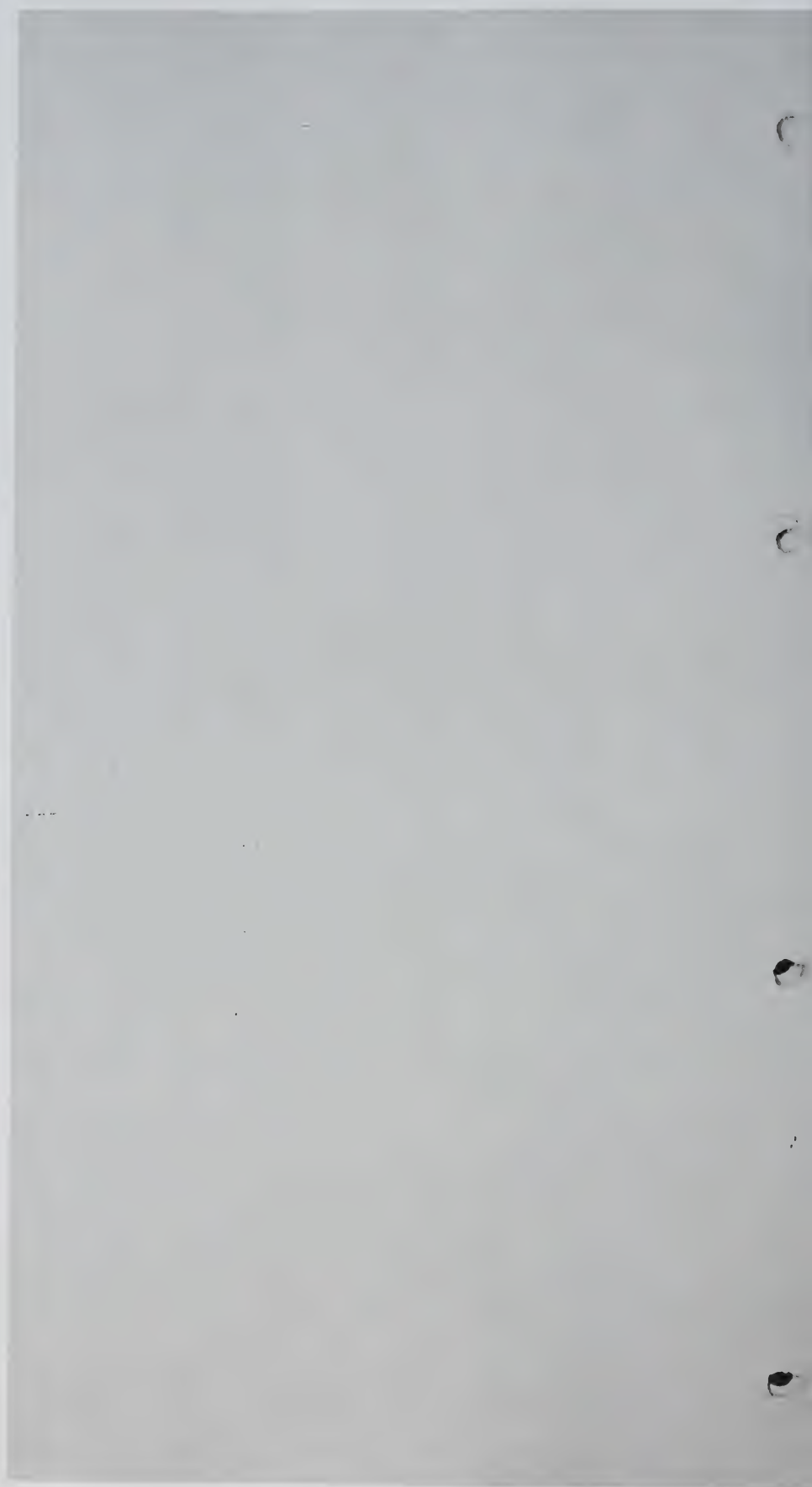


I am compelled by the political laws of the State of New York to put three brakemen on that train. When I get to the Pennsylvania State line I stop the train and take one of those fellows off. I go up over the Susquehanna mountains, a seventy-five foot grade with a very heavy curvature. I do not have any more expense on the Susquehanna mountain than I do in the Susquehanna valley, and yet I am paying a fellow who does no work, every time I make the trip, because the politicians say I must do it.

We were running a little branch line called the Ausable Chasm line, which was earning six cents a mile. I petitioned the state commission to allow me to take the train off. At the end of two years I got permission to do so. Some newspaper man out in the valley caused representation to be made, which compelled me to put the train back. At the end of six months I filed a new application---it still was earning six cents a mile---after waiting two or three months I obtained authority to take it off. I did not touch the government in any way. I find it has no capacity to conduct competitive business; it smears the whole thing every time it touches it.

MR. MOSHER: You had better look very closely into the Ontario Hydro Electric system before you leave the province.

I was very much interested this afternoon in your statement as to the manner in which you had been able to keep all the employees of your railway employed during this depression. I made a remark to my economist that I was going to suggest to you that you have a very close heart to heart talk to the principal railway managers in this country, Sir Henry Thornton and Mr. Beatty, to see if



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Mr.Mosher
Mr.Maclean

you cannot teach them something in the way of keeping the men at work in this country; because certainly we have got it where the chicken got the axe all the way through, since the depression started, with the result that fifty thousand of our men are without jobs and without means of supporting themselves.

COMMISSIONER LOREE: I have a different proposition on my hands just now.

MR.MOSHER: I appreciate that. You might find time to have a little talk with them before you go.

MR.MACLEAN: Probably Mr.Loree's road did not branch out in the profusion of hotels and golf courses and that sort of thing during those two or three years.

COMMISSIONER LOREE: We own two hotels. One of them was built in 1854 and was burned down once and rebuilt. The other was built about 1875 and was burned down once and rebuilt. We own two boat lines, and those four properties lose about \$250,000 a year. I cannot find a purchaser for them. I would sell them very cheap, if I could find a purchaser.

MR.MOSHER: It is too bad you have not got the Canadian government to sell them to.

SIR JOSEPH FLAVELLE: Let me speak to you of a matter of which I have intimate personal knowledge. Your statement in regard to the Canadian Bank of Commerce and the Canadian Northern Railways is absolutely wrong.

MR.MACLEAN: Absolutely wrong?

SIR JOSEPH FLAVELLE: Yes, it is.

MR.MACLEAN: I am glad to hear it.

SIR JOSEPH FLAVELLE: I speak from the most intimate



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Mr. Mosher
Mr. Maclean

and personal knowledge. The statement is absolutely wrong.

MR. MACLEAN: I am glad to have it refuted.

SIR JOSEPH FLAVELLE: The press is present; I could not allow that statement to go unchallenged. It is wrong. You have been misinformed. I have heard it a hundred times. It has always been wrong, absolutely wrong.

MR. MACLEAN: Are there any other banks?

SIR JOSEPH FLAVELLE: There are no other banks.

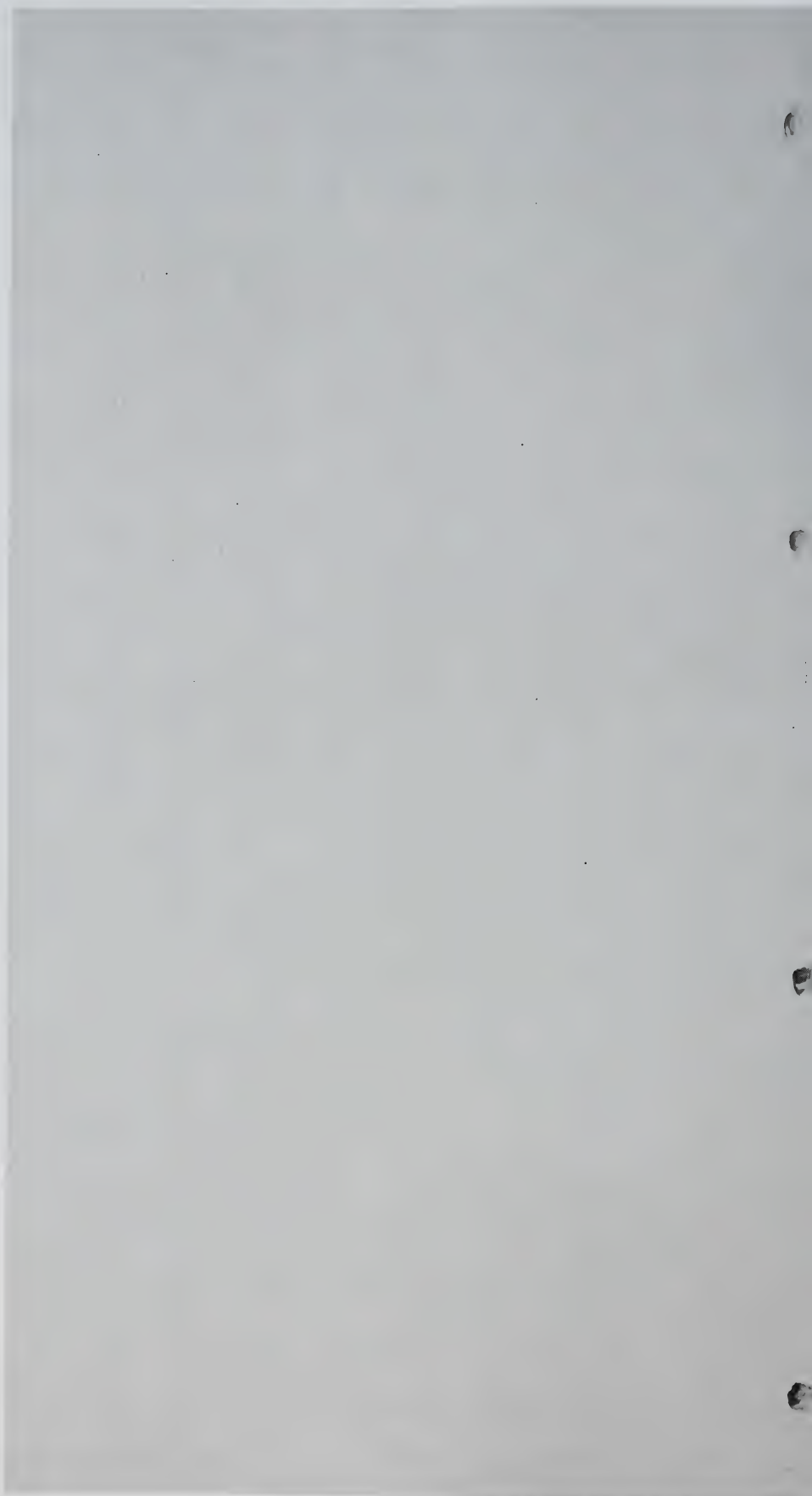
THE CHAIRMAN: Mr. Patton.

MR. M. J. PATTON: A memorandum presented on behalf of the Automotive Transport Association of Ontario.

The Automotive Transport Association of Ontario was organized in August, 1926, and incorporated under Ontario letters patent in January, 1928, for the purpose of promoting the interests of the interurban motor truck operators carrying on business for hire in the province of Ontario. We have a membership of 73 operating 752 vehicles classified as follows:

61 Class A operators operating	685 vehicles
3 Class B operators operating	9 vehicles
5 Class C operators operating	14 vehicles
4 Class D operators operating	44 vehicles

Our members operate 64 per cent of the vehicles operated under Class A, that is the class defined as common carriers operating for hire, pay or gain for the transportation of property between fixed termini or over a regular route on the King's highway, and they are located in all parts of old Ontario from Windsor on the west to the Quebec border on the east.



Growth of Motor Truck Transportation

The motor truck performs a very necessary service in the transportation system of Canada, a fact which is attested by the steady and rapid growth of truck registrations. These have increased from 37,610 in 1922 to 165,464, or 340 per cent in eight years. I have a table here showing the growth in each province year by year. Since 1925 the increase has been from 74,489 to 165,464 or 122 per cent.

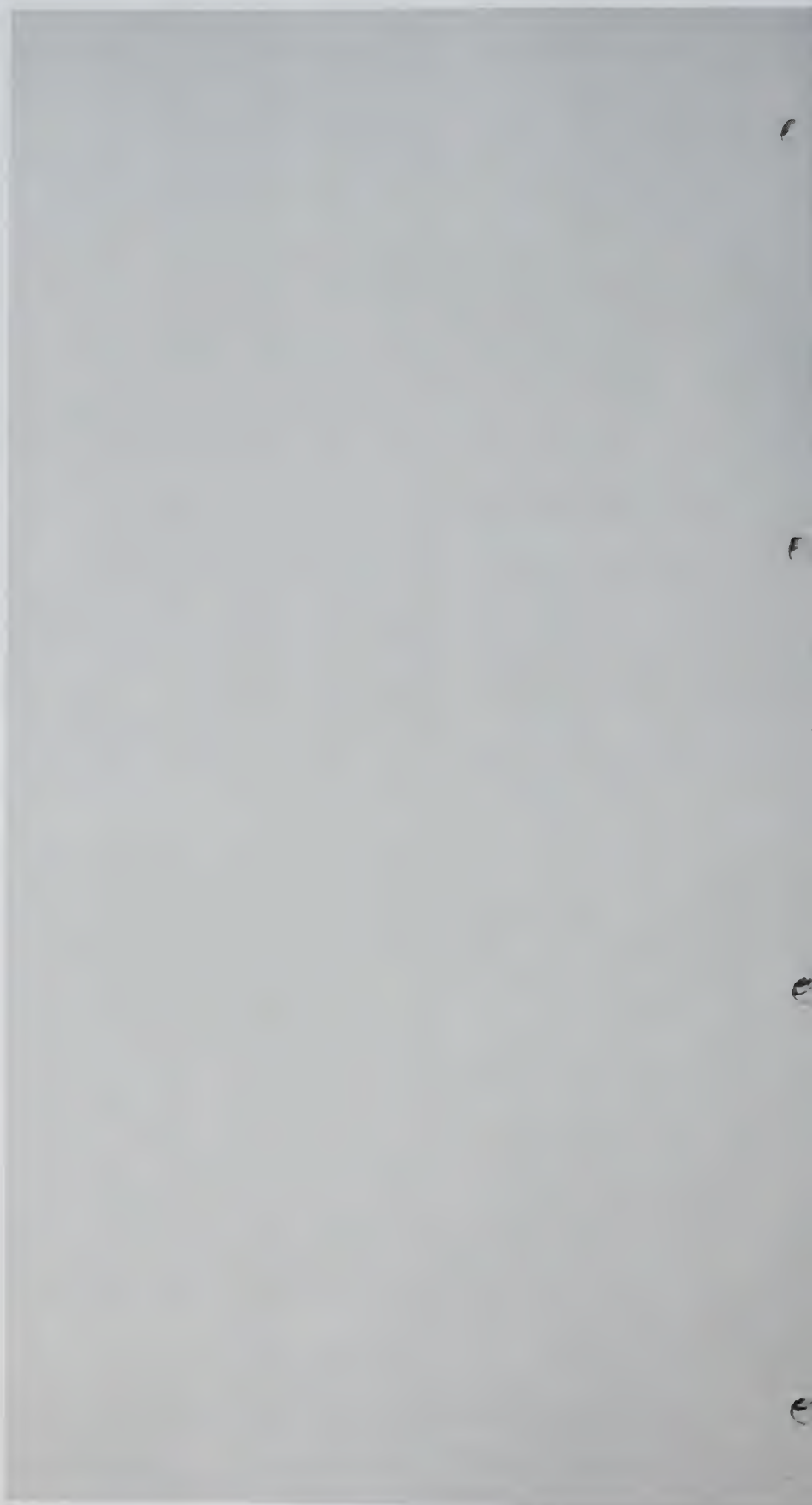
In the province of Ontario, in which the members of this association operate, there were 67,084 trucks registered in 1930, or 40.5 per cent of all the trucks in Canada. The table that I have mentioned shows that the increase in Ontario has been from 24,164 in 1922 to 67,084 in 1930, or 177.6 per cent. In the five years from 1925 to 1930 the increase was 93.4 per cent.

Economic Range

The principal field of usefulness of the motor truck is in the transportation of goods over comparatively short distances and in what the railroads term less-than-carload lots. Until a few years ago it was thought the economic range within which trucks could operate was about 75 miles but improvements in construction, methods of operation and roadways have increased this radius to approximately 130 miles for the average type of load. For special kinds of work, such for example as the haulage of household effects, where speed and the cost of crating are important factors, this range runs up to 500 miles, or even more.

Advantages of Truck Transportation

For long hauls and mass transportation especially of



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heavy and bulky commodities of comparatively low value the railway is the cheapest means of transportation, but the low cost of the truck unit, its flexibility, convenience, speed and low labour cost of operation gives that agency of transportation undisputed advantage in its own particular field. The availability of truck transportation at almost any hour of the day or night and the saving it effects in handling costs alone in affording store-to-door delivery are factors which render it more acceptable in its own field than any other kind of transportation. As an example of the advantages it affords in speed, it may be pointed out that one of the large Toronto packing houses can guarantee delivery of orders received up to midnight at the opening of business the following morning in Brantford, 67 miles distant. Such speedy delivery enables merchants to operate with much smaller stocks than would otherwise be possible and lessens the amount of capital necessary in their business.

Statistics released within the last few weeks by the Department of Highways of Ontario show that much greater use is made of trucks within the boundaries of cities than on the provincial highways. City deliveries of all kinds, including delivery of railway express and freight, have been immensely facilitated by the coming of the motor truck, and municipal services such as street cleaning, fire fighting and other local government services have been speeded up and made more efficient. In the city, perhaps more than anywhere else, the advantages conferred by the use of the truck are evident.

The Motor truck and the motor bus have likewise proved a boon to country districts and the agricultural



industry, especially in providing transportation services to sparsely populated districts to which it would be otherwise unavailable, and in widening the markets for their products. The cost of wagon haulage, which studies by the United States Department of Agriculture in 1918 showed was 30 cents per ton-mile, has been cut in half by the motor truck, and the daily haul of ten miles of the horse-drawn wagon has been multiplied many times. The motor truck has greatly extended the market of the farmer, and has largely displaced other means of transportation in the haulage to city markets of fruit, vegetables, eggs, milk and live stock. In live stock delivery the use of the motor truck saves the farmer a great deal in lesser shrinkage in the weight of his animals. In a survey conducted in 1930 by the United States Department of Agriculture it was shown that over 25 per cent of all live stock deliveries to sixteen of the largest and most representative live stock markets were made by truck. An authority on this form of transportation, Mr. Frederick C. Horner in The Application of Motor Transport to the Movement of Freight and Passengers at page 51 states that, due to fewer handlings and the elimination of losses in rail transport of milk cans, the motor truck effects a saving over rail transport of five cents per hundred weight in the shipment of milk.

Motor Vehicle Transportation Pays Its Way

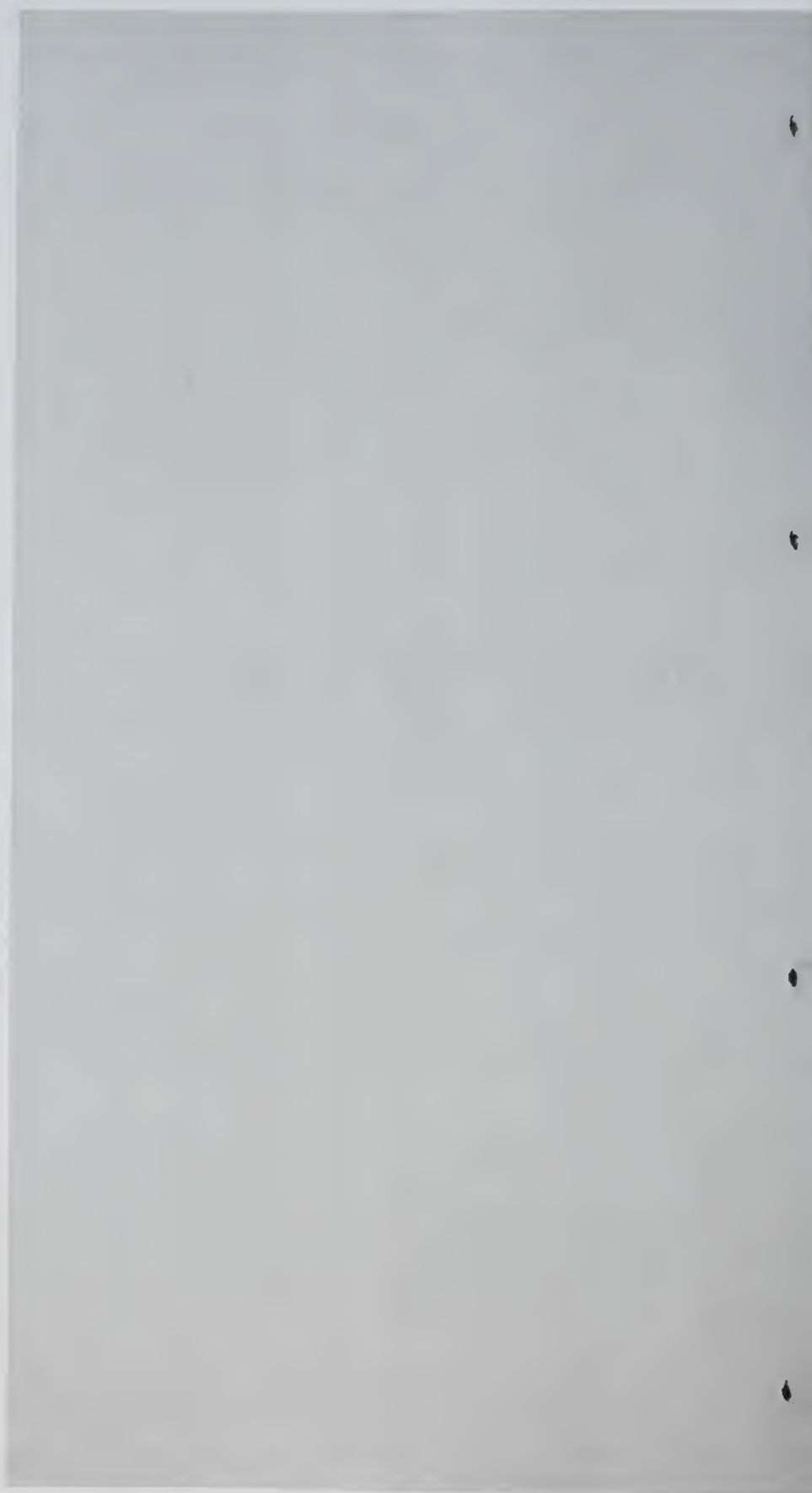
Some criticism has been heard that motor vehicle traffic does not pay its way and is unduly favoured by governments. This has been effectively answered in the brief of the Canadian Automobile Chamber of Commerce



presented to your honourable body on January 19th last, and to which we would now direct your attention on this point. In that representation it is shown that governments have always aided transportation in all its forms and that railways and water-borne transportation have been the chief beneficiaries of this policy, the railways receiving government aid to the equivalent of \$42,458 per mile and our expensive system of canals and aids to navigation being provided free of charge to water-borne traffic. It is there further shown that highways confer such great general benefits on the country at large that it has been the practice to charge only a portion of their cost to the actual direct users of them, a fair proportion, as concurred in by the recent British Royal Commission on Transport and also by Mr. Bernard Allen, Economist of the Canadian National Railways, being $66 \frac{2}{3}$ per cent of such cost. On this basis it is shown from statistics of highway costs and highway revenues in Canada compiled from studies made by the Citizen's Research Institute that motor vehicle transportation is paying, not $66 \frac{2}{3}$ per cent, but 74.1 per cent of the cost of construction and maintenance of our highways: and there is a slowing down of highway construction this percentage will undoubtedly increase.

Motor Truck Pays More Than Fair Share

Of this proportion of cost the motor truck, as compared with the private passenger car, is paying more than its fair share and is, we believe, discriminated against with the effect of adding to the cost of living. Reference to statistics of registrations indicates that only 13.3 per cent of the motor vehicles registered in Canada are

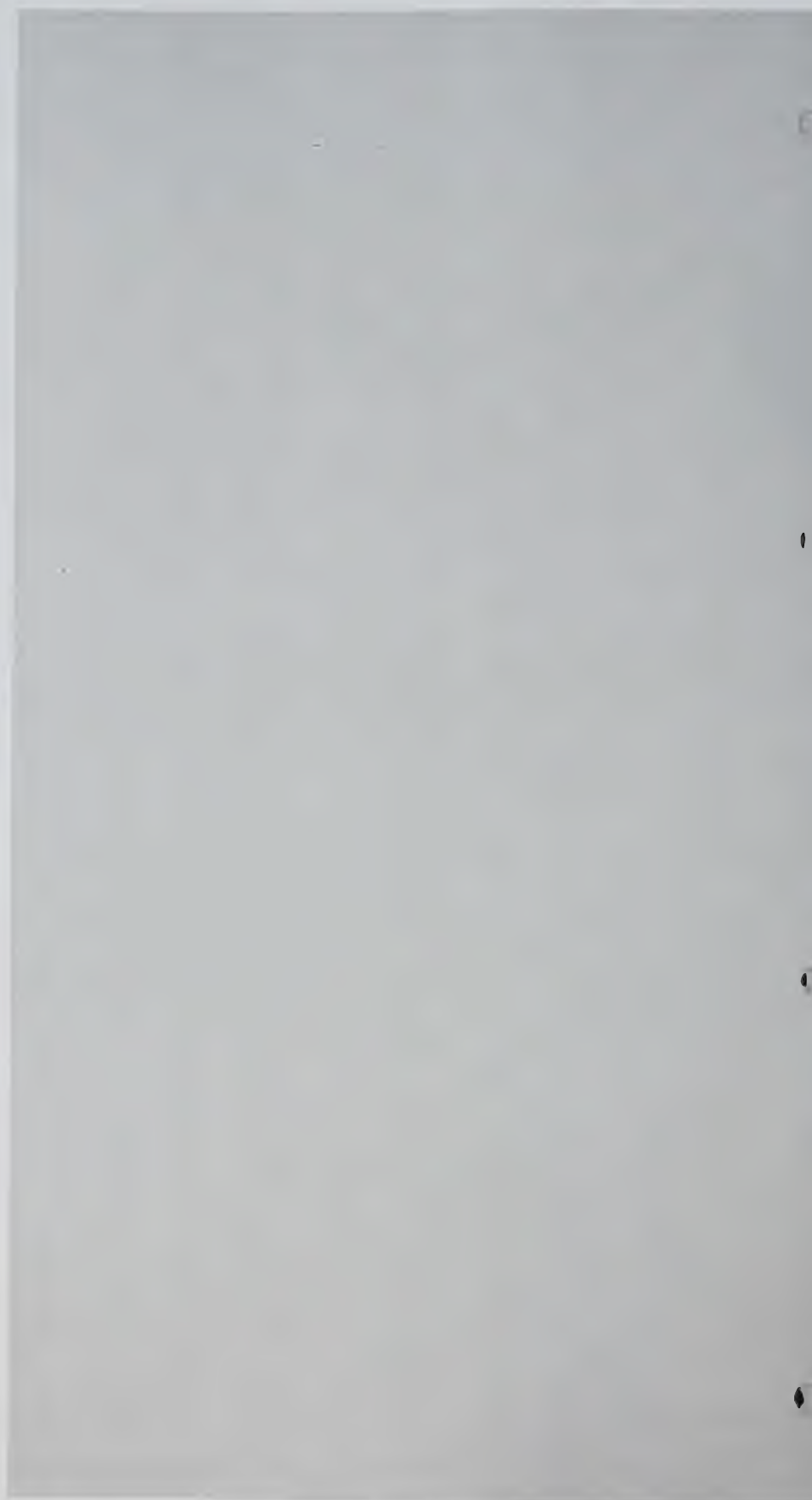


trucks. In Ontario, trucks comprise 12.5 per cent of the motor vehicles registered, yet they pay 26.2 per cent of the revenue collected, exclusive of the gasoline tax. The 1931 traffic census in Ontario showed that 9 per cent of the traffic on the highways was composed of trucks and in this connection it should be noted that they pay very heavy gasoline taxes because they are large consumers of that product. An average truck going seven miles on each gallon of gasoline consumed and travelling 30,000 miles per year, would pay \$215 in gasoline taxes alone. Taxes on trucks in Ontario for 1932 have been increased approximately 33 per cent over those for 1931. To this may be due the unusual occurrence that truck registrations up to January 31, 1932, decreased by 326, although passenger car registrations increased by 8,917.

It should be remembered also that trucks are subjected to heavy insurance charges. The province of Ontario requires all public carrier trucks to carry cargo insurance and the cost of this usually runs from \$50 to \$80 per vehicle per annum. Other forms of insurance, though not compulsory, are invariably carried by such operators.

Narrow Profit Margin

Operators of public carrier trucks in Ontario feel that they are heavily burdened by taxation and that any increase in this, especially in a period of depressed general business such as now exists, would have serious results. That operations have been carried on on a narrow margin of profit is disclosed by a table which is included in this brief, giving operating results for six representative, large



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and old-established transport companies in Ontario for the three years ended July 31, 1931. This indicates that the average profit over this period has been four per cent of revenue, a margin that is very narrow indeed considering the hazards of the business.

THE CHAIRMAN: You said "old established transport companies".

MR. PATTON: Yes; there are many old routes established in the province.

THE CHAIRMAN: How long have they been established?

MR. PATTON: Well, six or seven years.

COMMISSIONER WEBSTER: Does that cover depreciation?

MR. PATTON: Yes.

COMMISSIONER WEBSTER: It covers everything?

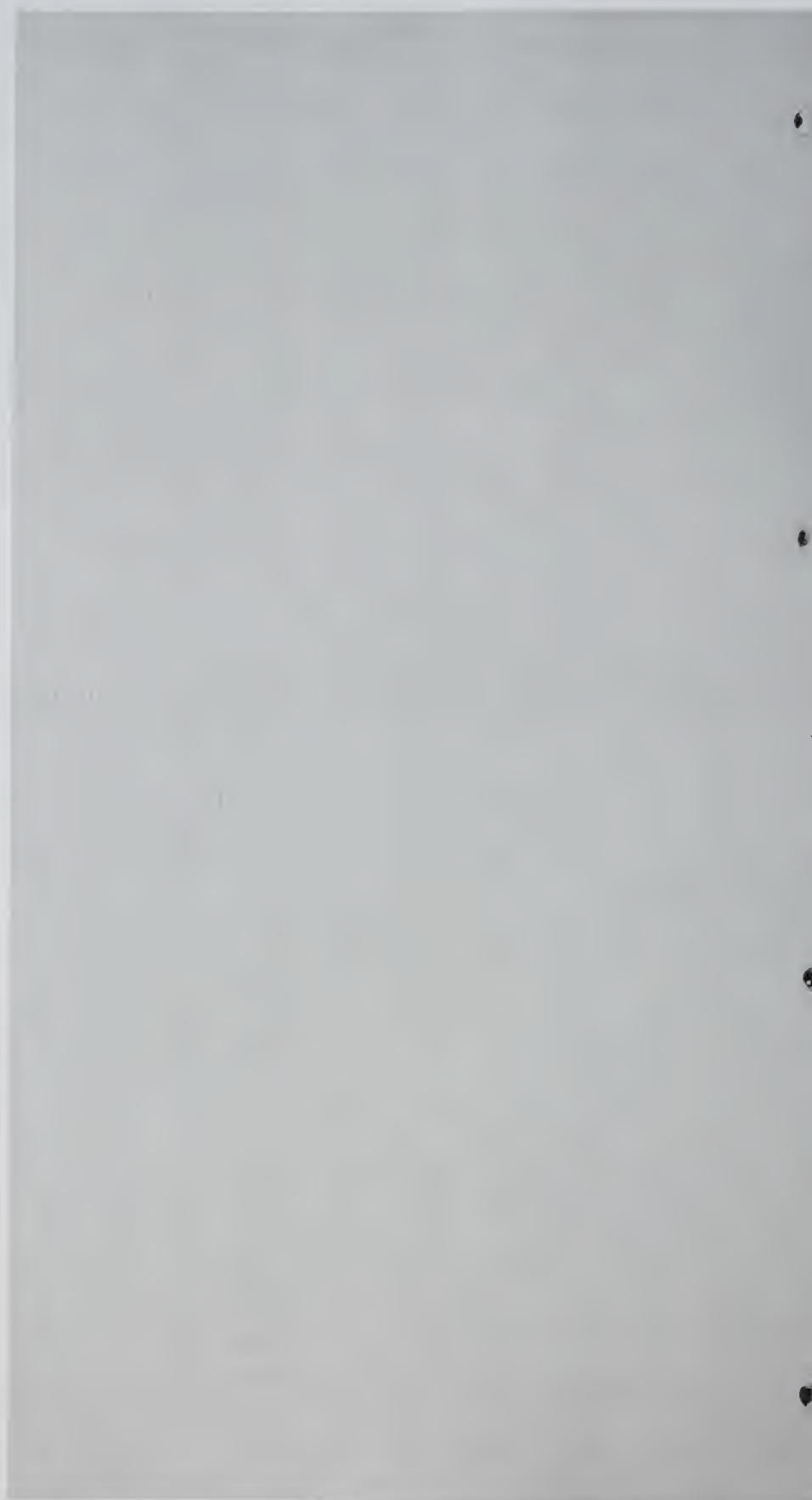
MR. PATTON: Yes.

COMMISSIONER WEBSTER: Is it on a competent basis?

MR. PATTON: All the details are given here for each company.

Railway Ills Not Due to Motor Trucks

The motor truck is not the serious competitor of the railway that many think it is. Water competition, serious overbuilding of lines, and, to a certain extent, extravagance in providing and in duplicating facilities and services are the fundamental causes of the plight in which our railways find themselves. Canada has one mile of railway to 235 people, a smaller number to the mile than in any other country in the world. Mr. Bernard Allen, of the Department of Economics of the Canadian National Railways, estimates that in 1930 all classes of motor trucks moved approximately

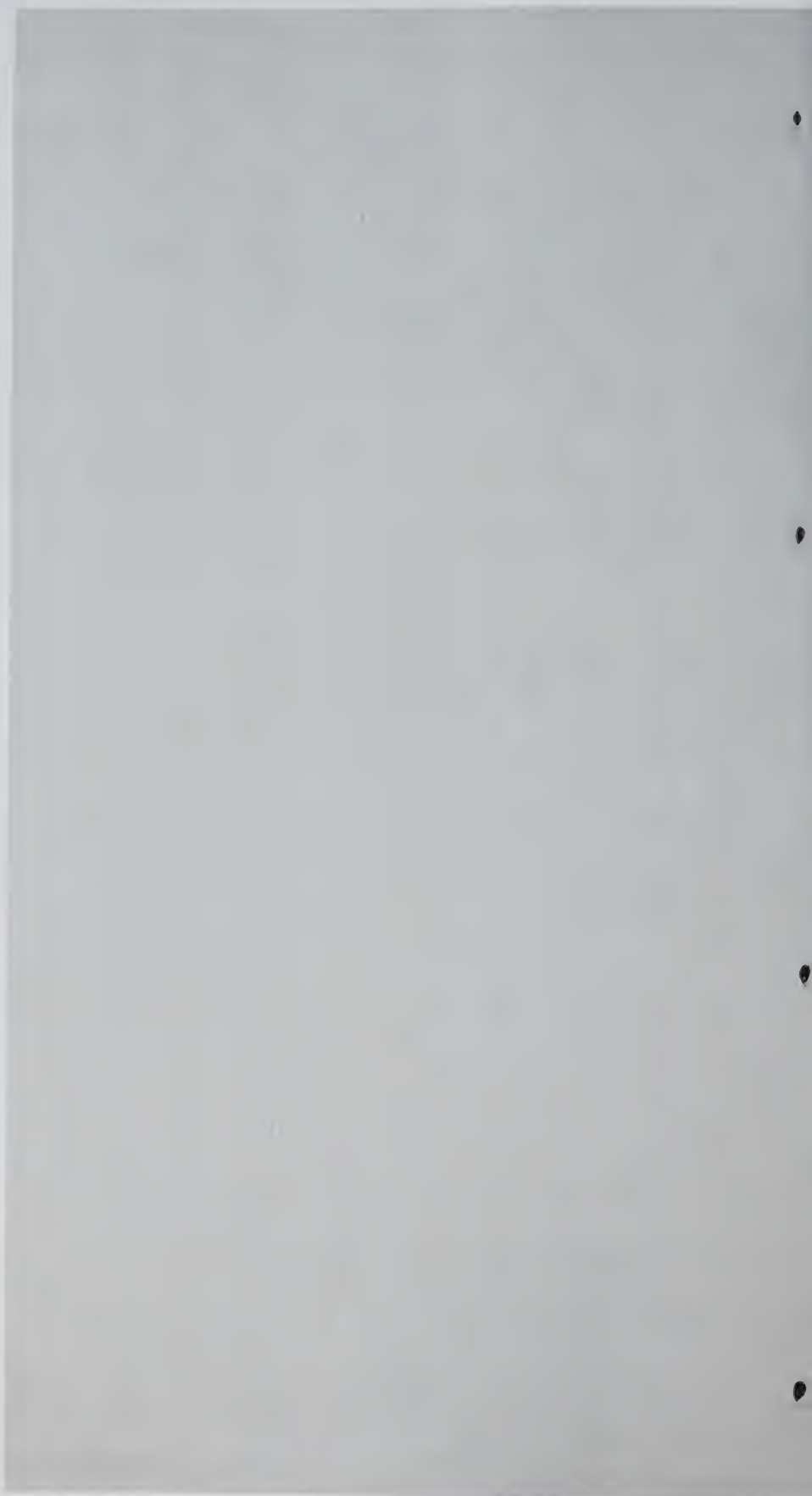


2,800,000 tons of freight. In that period the railways moved 115,230,000 tons. Trucks, therefore, handled only about 2.37 per cent of the total freight movement overland. Mr. Allen estimates revenues earned by the trucks was about 4.88 per cent of railway gross revenues, assuredly not a large proportion.

Furthermore, the largest part of the movement of freight by trucks is carried out in urban areas, and not over the provincial highways, according to Mr. R. M. Smith, Deputy Minister of Highways for Ontario, in a paper which he read before the Engineering Institute of Canada at Toronto, February 5th, 1932, entitled "Highway-Railway Traffic". Mr. Smith also deduces from traffic surveys made by his department and from studies of freight movement made by the railway men that only forty-three one-hundredths of one per cent of the freight moved in Canada is moved by truck over the highways, and this, to quote his exact words, is "almost a negligible amount".

Mr. Smith thinks that the motor truck has no conclusively demonstrated its superiority and cheapness in short-haul transportation that the railways cannot seriously compete with it in that field. He says:

"Personally, I am of the opinion that were the railways to enter the truck field as it now applies, it is an open question as to the amount of business they would regain. In any case, I am forced to conclude that truck competition applies only where the distance is greater than 60 miles. For anything under this I fail to see how railways can assume that they are a competitor. Even were the provinces to increase rates



several times what they are at present, I believe the private truck would continue to function, the unfortunate consumer eventually paying the difference in cost."

COMMISSIONER LEMAN: You mean 'rates', not rate of taxation?

MR. PATTON: Yes, rate of taxation is what I do mean.

COMMISSIONER MURRAY: License and so forth?

MR. PATTON: Licenses and other forms of taxation.

COMMISSIONER LEMAN: I thought you meant 'rates', tolls.

MR. PATTON: No; that is what I do not mean.

SIR JOSEPH FLAVELLE: The trucks represent 30 per cent, do they?

MR. PATTON: Yes; but until recently they did not represent that much.

THE CHAIRMAN: "Ninety-five per cent privately owned". What do you mean by that?

MR. PATTON: I mean trucks which are owned by companies that carry the goods of those companies, and private persons who carry their own goods.

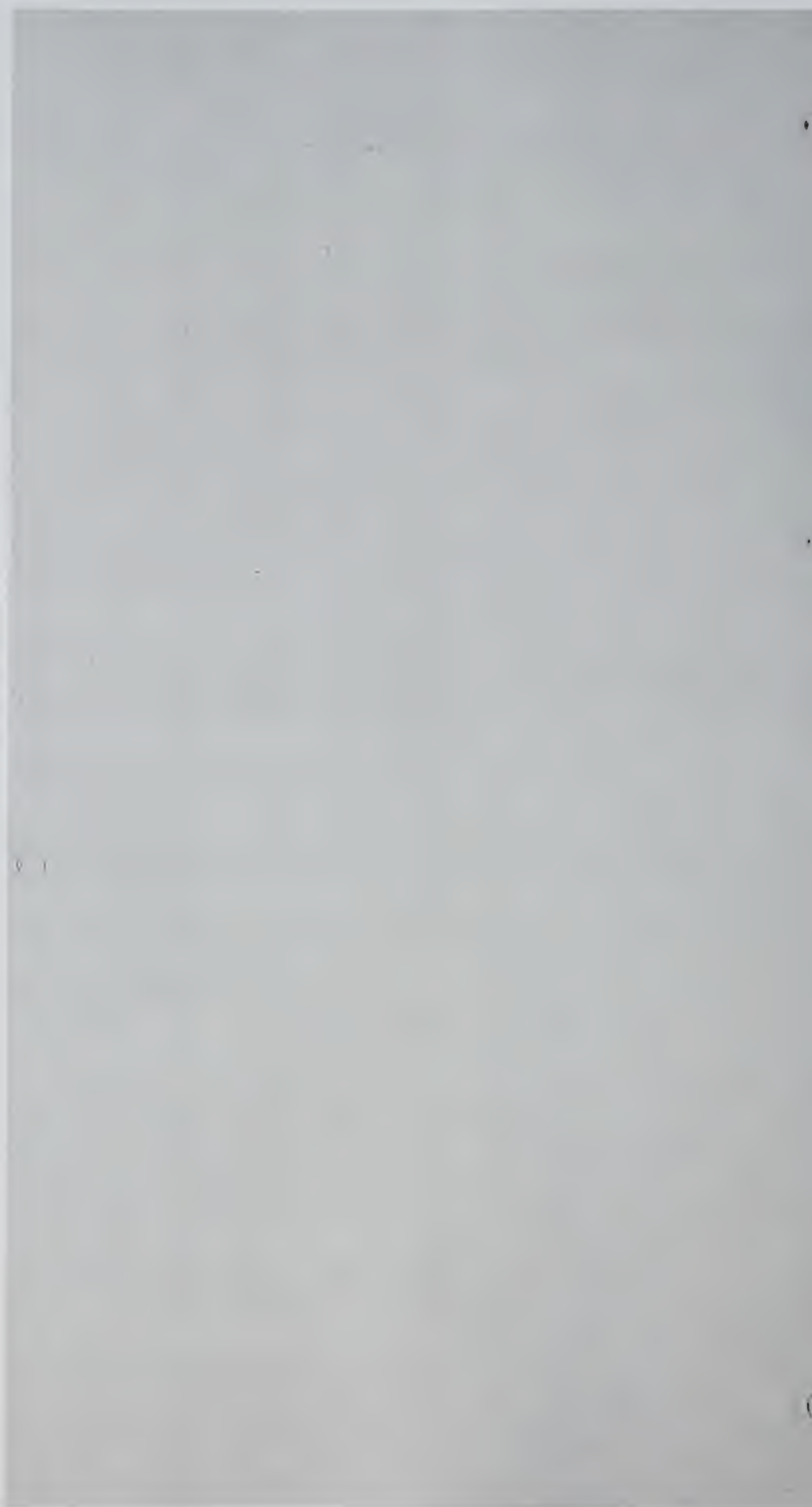
COMMISSIONER LEMAN: Not common carriers?

THE CHAIRMAN: Oh, no. The people who do contract business are the people to whom you refer.

COMMISSIONER LOREE: There are three types, private, contract, and common.

THE CHAIRMAN: Public there includes both private and common carriers.

COMMISSIONER MURRAY: There are references made to trucks bringing back a load after delivering the first load.



MR. PATTON: That is so to a certain extent. I understand some companies do that.

COMMISSIONER MURRAY: They would become common carriers.

MR. PATTON: Yes; I understand they take out different licenses.

COMMISSIONER LEMAN: They probably do.

MR. PATTON: I think they do it under a different license. They take out a second license.

THE CHAIRMAN: Privately-owned seems a strange expression to use to cover that.

SIR JOSEPH FLAVELLE: When you speak of ten per cent do you mean that ten per cent of the ninety-five per cent are owned by private parties, and only five per cent---

MR. PATTON: Only five per cent are common carriers; but this five per cent may be contract carriers.

THE CHAIRMAN: A contract carrier is not a common carrier.

MR. PATTON: If he makes a contract with a firm to carry its goods exclusively, he is a contract carrier.

THE CHAIRMAN: Yes.

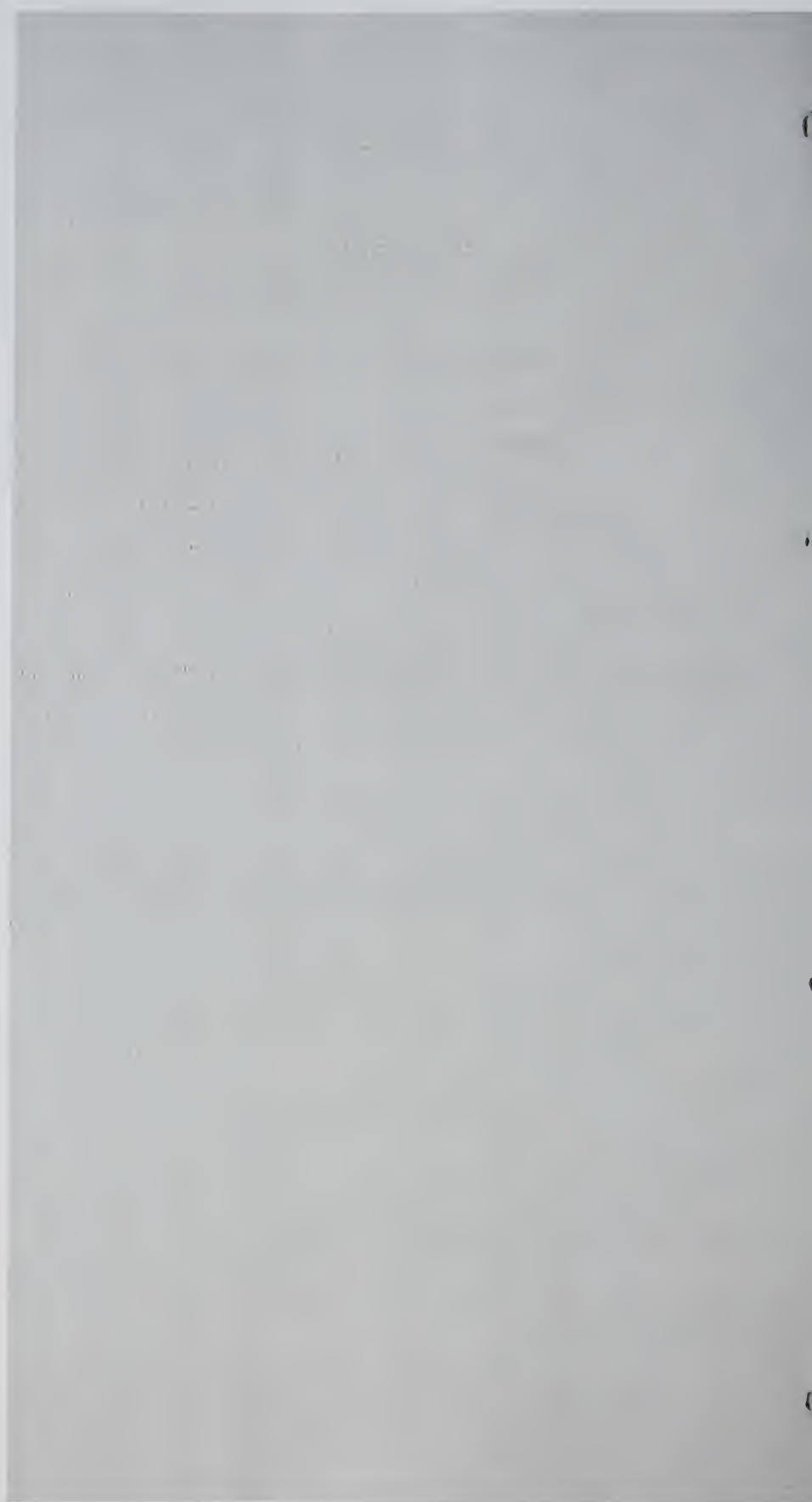
COMMISSIONER WEBSTER: There are two forms of carriers.

SIR JOSEPH FLAVELLE: He is not a common carrier because he does not take a return load?

THE CHAIRMAN: He does not profess to the public to take anybody.

MR. PATTON: He confines himself to a few customers.

COMMISSIONER WEBSTER: Cannot he bring back a return



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load?

THE CHAIRMAN: The point about a common carrier is he makes a public confession.

SIR JOSEPH FLAVELLE: Have they no power to contract to take a load from Ottawa to some distant point, and then contract to bring a load back to Ottawa? Would not that be contract carriers? Is not that the way they run?

MR. PATTON: Not if they can help it.

COMMISSIONER WEBSTER: I was told a year or so ago by the Gormans, who are furniture movers, that they send a load down to New York and take on another load somewhere else on the way back; and they make different contracts with each of those parties.

SIR JOSEPH FLAVELLE: Are there not some regulations in the province of Ontario which prohibit that? Take for instance the Toronto Star, which delivers its newspapers to all parts of the province. The Star gives a daily delivery as far north as Midland, and it is not allowed to bring back anything.

MR. PATTON: That depends on the license taken out. I have defined the four classes of licensees in the footnote.

THE CHAIRMAN: What are the four classes?

MR. PATTON: I shall read them. I passed over them before because I was trying to save time.

In Ontario, public commercial vehicles are classified under government regulations into the following classes:

Class A, Common Carrier: Any motor vehicle operated for hire, pay or gain for the transportation of property between fixed termini or over a regular route on the King's Highway.

Class B, Common Carrier: Any motor vehicle operated for hire, pay or gain for the transportation of property between fixed termini or over a regular route from or to a point not on the King's highway.

Class C, Private Carrier: Any motor vehicle operated for hire, pay or gain for the transportation of property belonging to one person only on a trip.

Class D, Private Carrier: Any motor vehicle operated for hire, pay or gain under contract for the transportation of property and vehicles designed and used exclusively for the transportation of a particular type of property.

THE CHAIRMAN: Class "C" would be the one of which you were thinking; but the fourth apparently authorizes anything to be carried.

COMMISSIONER LEMAN: Providing it is in one class.

MR. PATTON: Public Carrier Costs.

The public public carrier truck, both common carrier and contract carrier, constitutes but a small percentage of all trucks. In Ontario trucks make up about 10 per cent of all vehicles on the highways, and 95 per cent of all trucks are privately owned. Only five per cent are public carrier vehicles.

The public carrier vehicle has been the subject of considerable uninformed criticism, one of the most unworthy of which is that it operates for gain over a public highway. Why should it not? That is what our highways were built for. Every vehicle passing over them is actuated by such an object whether it be gain in pleasure, in health-giving recreation or in actual dollars and cents. All of these, it might be

held, can be measured by the common denominator of money. The private truck likewise operates over the highways for gain. Both classes of trucks are justified in doing so. Both, through taxes, are amply paying their way and in some provinces not only paying their way but contributing to the general revenues in addition.

Public Carrier Truck Handles Only 1.2 Per Cent
of Railway Freight

As stated before, the number of public carrier trucks in Ontario constitutes but five per cent of the total number of trucks registered. For all Canada, a railway economist, Mr. Bernard Allen of the Department of Economics, Canadian National Railway, in a paper entitled "The Railways and Commercial Highway Operation" given before the Canadian Railway Club, Montreal, on November 9th, 1931, placed their number at four per cent of all trucks registered, and estimated that in 1930 they carried 1,400,000 tons of freight. This is 1.2 per cent of what the railways moved. It may well be asked what appreciable assistance would be afforded the railways by placing restrictions on this small percentage of vehicles. Very little, indeed, yet such would cause considerable loss and inconvenience to the public.

Unwise to Impose Burdensome Taxation

The imposition of heavy taxation or other burdensome restrictions on public carriers sufficient to drive them out of business would be an unfair discrimination against the small merchant and business man who cannot afford to operate his own truck or fleet of trucks and

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must go out and purchase his transportation from the common carrier truck. Such restrictions would result in the larger firms going into the trucking business to handle their own freight. The railways would not get it, because they do not give the required service. It would still move over the highways.

Judged from the use he makes of the highway as indicated by traffic density and area of road covered by his vehicle, the truck owner has good cause to complain that he is paying more than his fair share of highway costs; Mr. R.M. Smith elaborates this argument well:

"Keeping in mind that our traffic census shows more than 90 per cent of the cars on our roads are passenger cars, it might be argued by the truck and bus operator that they pay in proportion to their density, or according to the space actually occupied on the road surface. Accepting this argument and allowing that the passenger car occupies an average area of 78 square feet and a truck 175 square feet, based on the traffic census, passenger cars should pay 75.08 per cent of the cost of our roads, 24.92 per cent of the cost being charged to trucks. On our present schedule of fees, passenger cars in Ontario, it is estimated, will provide 59 per cent of the revenue we receive, 16.08 per cent less than what they should pay, accepting space on the highway as a factor."

Truck Traffic Not Unduly Harmful to Roadways.

Arguments have been advanced to the effect that

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trucks, on account of their weight, are more destructive to pavements than other motor vehicles and should be taxed proportionately higher to defray the cost of this greater wear and tear.

COMMISSIONER LEMAN: That would be taking the full road, not on the basis of the inside piece where there is one third kept off the side.

MR. PATTON: You are referring to this portion of Mr. Smith's remarks?

COMMISSIONER LEMAN: Yes; on the basis of the cost of maintenance and everything?

MR. PATTON: Oh, yes; that is on the full basis.

THE CHAIRMAN: That has special reference to the Ontario practice, in which motor vehicles pay a good deal more than the cost.

MR. PATTON: It refers to the destruction.

THE CHAIRMAN: Are you going to hand in your brief?

MR. PATTON: Yes. It has been pretty fully covered in a former brief of mine on behalf of the Canadian Automobile Chamber of Commerce.

THE CHAIRMAN: If you are going to hand it in I do not think it will be necessary for you to go into all the details.

COMMISSIONER WEBSTER: May I ask a question here? The difference between a paved road and a gravel road is very very considerable. I notice that nearly all of the discussion has been placed upon the wear and tear on a paved road.

MR. PATTON: Yes, because the truck traffic is almost all over paved roads.

COMMISSIONER WEBSTER: That is only in Ontario and part of Quebec. In the west there are no paved roads.

MR. PATTON: Ontario and Quebec have paved roads. A great proportion of our truck traffic, in fact, 45 per cent of our truck traffic is in Ontario.

COMMISSIONER WEBSTER: You find damage to the road in certain seasons of the year is infinitely greater on a gravel road than it is on a paved road.

MR. PATTON: It would be greater, no doubt.

SIR JOSEPH FLAVELLE: There is quite a difference in the spring.

MR. PATTON: There is no doubt about that.

COMMISSIONER LEMAN: They stop them on those roads. In New Brunswick and Quebec the authorities stop the trucks in the spring.

MR. PATTON: In Ontario on certain paved roads the government prevents us from carrying any more than half a load during the time the frost is coming out of the ground.

COMMISSIONER LOREE: Do you look forward to the time when there are restrictions on the hours of labour of a chauffeur and the distance and wages and so forth, similar to what the railways have been obliged to follow in the last twenty or thirty years.

MR. PATTON: I look forward to some restriction.

COMMISSIONER LOREE: Smaller loads, for instance.

MR. PATTON: I should hope not.

COMMISSIONER LOREE: The state of Texas limited the loads last year to 7,000 pounds.

MR. PATTON: I should hope not. So far as the restriction in hours of labour is concerned, the law as it stands now is quite sufficient; but it has not been enforced as it should have been. The law says ten hours

is the limit.

COMMISSIONER WEBSTER: Is there any difference between day and night?

MR. PATTON: No, there is no difference made. It has never been very rigidly enforced.

COMMISSIONER DUFF: That is on the score of public safety?

MR. PATTON: That is on the score of public safety.

COMMISSIONER DUFF: That is the excuse for it.

MR. PATTON: It is a very good reason for it.

This argument sounds plausible to the average man because trucks look large and heavy to him. He forgets, however, to observe how this weight is distributed over the road surface. Fortunately, the Bureau of Public Roads of the United States has made exhaustive scientific studies of this problem extending over several years, and we are therefore not dependent on casual opinion to settle the question. These investigations showed that it is not the absolute weight of a vehicle that is the factor determining its effect on the road but how that weight is distributed through the wheels to the road, and that contrary to popular belief the speed of motor trucks up to about 45 miles per hour did not impose heavier burdens on the highway than lower speeds and that the weather was the most important factor in road building, the action of frost and sun and rain alone making necessary a minimum thickness of pavement more than sufficient to carry ordinary passenger car, truck and bus traffic.

Extracts from the testimony of Mr. Thomas H. MacDonald, Chief of the United States Bureau of Public Roads, before the United States Interstate Commerce Commission at

Washington on March 5th, 1931, explain the results of the investigation. Mr. MacDonald said:

"We would not build roads much less than 7 inches at the edge and 6 inches in the centre, no matter what kind of loads we were going to carry. If we built thinner surfaces they would curl up like tissue paper in the rays of the sun. They would warp; the frost heave would destroy them. So we have a certain minimum thickness of road that it is necessary to build if there were nothing heavier than the ordinary passenger cars and farm trucks to use the road, and the whole question of heavier buses and heavier trucks therefore begins with a certain minimum thickness of road which is necessary regardless of whether they existed or not."

Mr. R.M. Smith, Deputy Minister of Highways for Ontario, and a noted authority on highway engineering in an address before the Engineering Institute of Canada at Toronto on February 5th, 1932, said that the standard pavement being laid on Ontario roads to-day "should be expected to last for all time, particularly if motor traffic might be accepted as the only destroying agent. Unfortunately, however, we must take the main factor, climatic conditions, into consideration and appreciate that eventually this most destructive agent will decide the life of our pavements."

He went on:

"It is not until we get to the 5 ton truck that it is necessary to increase the dimensions of the road and then only by one-half inch in thickness; so that as

between the passenger cars and the lighter trucks-- farm trucks, if you wish, taken as a value of one or as a unit, when you get to the 5-ton truck, in order to keep our stress, get the working stress of the material, 350 pounds, we must increase the thickness of the road one-half inch or about 7.7 per cent, and for a $7\frac{1}{2}$ ton truck 1.154 or about 15.4 per cent."

Our tests show that in the application of wheel loads to the road, if the wheel rests as much as 36 to 40 inches apart, if the point of contact of one wheel is 36 inches ahead of the next wheel, there is no overlap of stresses in the road structure. In other words, the road has to carry only the weight of each particular wheel. The stresses do not pile up. Therefore, if we had a load to move on the roads that would take more than 18,000 pounds on the rear axle, it should be solved by placing two 18,000 pound rear axles with four wheels in place of two wheels."

Mr. MacDonald's testimony also punctured the popular fallacy that the operation of motor vehicles at high speed imposes a heavier burden on the highway. He testified that with balloon tires the maximum impact is reached at about twenty-five miles per hour and that the faster you go after passing twenty-five miles the easier it is upon the road and that in the case of high pressure tires the impact reaches the maximum at thirty miles an hour and remains practically constant for higher speeds. As pointed out by him, this does not seem quite logical until we think of the illustration with which we are all familiar that you can skate over thin ice at high speed which will not hold you up at low speed.

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Mr. MacDonald, in his evidence, refers to a pavement 6 inches thick in the centre and 7 inches at the edge, which he shows will carry up to a 5-ton truck. Our Canadian highway pavements, however, on account of our more rigorous climate, are built thicker and can therefore carry heavier loads. Most of our provinces follow the standard of the province of Ontario which, since 1923, in its two standard types of pavement, the concrete and the black base, has adopted a 20-foot pavement 10 inches thick at the edges and 7 inches at the centre. This will stand a load of 650 lbs. to the square inch and is more than sufficient to carry any load that ordinarily uses the highways.

Regulation

Public carrier motor vehicles are now closely regulated in Ontario as to routes, the filing of time and rate schedules, bills of lading, equipment inspection, working hours of drivers and the carrying of insurance, and the Automotive Transport Association of Ontario is of the opinion that the existing regulations, properly enforced, afford adequate safeguards to operators, shippers and the public at large.

Although the issue of licenses to operate public carrier vehicles in Ontario is conditional on the public need for service over the routes applied for as determined by the Department of Public Highways and the number of motor truck operators over given routes is therefore limited by public necessity and convenience, there is nevertheless such severe cutting of rates at times that this association favours rate regulation by a competent public body. We feel that this, by giving greater financial stability to truck operators, would

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result in better service to the public and would remove unfair discrimination in rates as between different shippers. We believe, however, that regulation should be effected by the Ontario Department of Public Highways or a competent regulatory board appointed by the Province of Ontario, and we are opposed to regulation by the Board of Railway Commissioners of Canada. Our opposition to regulation by the last-named body is not to be construed as a criticism of a board which we believe is composed of fair-minded men well versed in the intricacies of railway administration, but quite apart from the fact that it appears to have no jurisdiction, we are of the opinion that its traditions, atmosphere and personnel are so bound up with railway interests that it could not give that disinterested consideration to the regulation of motor truck rates and operation which is essential to supplying the public with a flexible, efficient and reasonably priced highway freight service.

Co-ordination of Rail and Truck Service

Beneficial

We submit that the railways could with benefit to all concerned make use of the services of trucking organizations in the movement of less-than-carload freight. Many railways in the United States, notably the Pennsylvania, the New Haven, and the New York Central, have found co-ordination of railway service with motor truck transportation profitable to themselves and their shippers. The Pennsylvania has experimented profitably with portable truck bodies which are carried, loaded with freight, on the railway for the line haul, and then lifted off by crane to waiting trucks for

for terminal delivery service.

A special investigation recently made covering the movement of freight by motor truck and also by rail between Philadelphia and New York, says J.F. Deasy, vice president of the Pennsylvania Railroad, revealed the following.

"1. The average rail charge on less carload freight including pick-up and delivery service, was 56.9 cents per 100 pounds.

2. The approximate average trucking charge, including pick-up and delivery service, was 42 cents per 100 pounds.

It will be observed that the truck rate is lower than the rail rate. The railroads and the truck operators can through co-ordination, produce a cheaper service for the public than they can be operating alone as at the present time.

Application to New York and Philadelphia Haul.

Based on a 100-mile movement and a 75 per cent load, or 15,000 pounds, the truckers' rate plus the pick-up and delivery costs of eight cents in Philadelphia and 12 cents in New York, would produce a cost to the trucker of approximately 29 cents per 100 pounds, and adding to this an average of 4 cents profit per 100 pounds for the trucker, which is approximately what he is receiving today, we have the following comparison of charges:

1. The average of the rail class rates, including pick-up and delivery service--56.9 cents.

2. The present approximate trucker's rate, including about 4 cents profit--42 cents.

3. The truck body charge, plus four cents profit for the trucker--33 cents."

Co-ordination in this instance shows a saving in costs to the shipper of 23.9 cents per hundred pounds over all-rail service and of 9 cents over highway transport, after allowing a reasonable profit to both railway and motor truck operator. Undoubtedly similar beneficial co-ordination of these two services could be made in Canada if the railways desired.

SIR JOSEPH FLAVELLES: What is that 23 cents?

MR. PATTON: That 23 cents is a saving over all road services.

THE CHAIRMAN: The 23 cents is a saving over all road and the 9 cents is a saving over all motor transport services.

MR. PATTON: Yes. The saving is a little higher in one case than in the other. The point I am making is that co-operation and co-ordination of the two services was beneficial.

COMMISSIONER LOREE: At the present time trucks are limited as to speed by automatic regulators. If they are limited as to the weight they shall carry, and so forth, are they going to be able to stay in the business. I am not speaking from a railway point of view, but from the point of view of police regulations.

THE CHAIRMAN: Regulations for public safety.

MR. PATTON: It all depends on the rigour of the

restrictions, of course.

SIR JOSEPH FLAVELLE: What is the situation in regard to death rate?

MR. PATTON: I do not know, but it is greater from passenger cars.

THE CHAIRMAN: You have no statistics?

MR. PATTON: No.

THE CHAIRMAN: It would be easy to compile them if you started to do it.

MR. PATTON: It could be very easily done, if the department would do it.

COMMISSIONER WEBSTER: If trucks were running from one province to the other, would you have two road regulations?

MR. PATTON: You would run into difficulties there.

SIR JOSEPH FLAVELLE: Are you of the opinion that the present taxes paid by motor vehicles, both trucks and passenger cars using public highways, represents a just charge against them as compared with the fixed charges against the railway property?

MR. PATTON: Yes, I am. If you will refer to the brief submitted by the Automobile Chamber of Commerce you will find that I gave those statistics which were based on those compiled by the Citizens' Research Institute, and I think you will find that question fully met.

THE CHAIRMAN: You were referring to your brief, which was filed in Toronto?

MR. PATTON: Yes.

THE CHAIRMAN: Which brief is that?

MR. PATTON: That was the brief I presented before

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your body in Toronto.

THE CHAIRMAN: You are not referring to the brief you had to-day?

MR. PATTON: No, I was not referring to that at all.

COMMISSIONER LEMAN: You were referring to the one of January 17th?

THE CHAIRMAN: What was the name of that association?

MR. PATTON: The Canadian Automobile Chamber of Commerce. It was a general brief covering all phases of the Automotive industry.

SIR JOSEPH FLAVELLE: You acted in the position of their economist in connection with that work?

MR. PATTON: I was retained specially for that particular purpose. I am not their economist. I am not in their employ now. I was just retained for that particular purpose.

In conclusion, we submit that the motor truck has amply demonstrated it is performing a necessary service in short haul and less-than-carload freight transportation in a manner and at a price at which the railways cannot give such service; that it is not only paying its share of highway costs, but is bearing a higher proportion of them than other motor vehicles, except buses; that it is not more destructive to pavements than other motor traffic; that climate, not wear of traffic, is the chief enemy of our pavements, which would have to be built as thick as at present for climatic reasons alone, even if no trucks whatever made use of them; that the difficulties which the railways are meeting are due not to motor truck competition, but to over-building and defects in administrative policy, and that regulation of motor truck

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Mr. Patton

freight rates by provincial authorities is desirable to eliminate discrimination as between shippers and localities and to provide a better highway freight service. We further submit that co-ordination of rail and motor truck services could and should be effected with benefit to the public and to both these agencies of transportation.

At 10.30 P.M. the meeting adjourned.

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ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met at the Parliament Buildings, Ottawa, on Tuesday, February 16, 1932.

PRESENT:

RIGHT HON. LYMAN POORE DUFF, P.C., Chairman

SIR JOSEPH W. FLAVELLE, Bart.)

BEAUDRY LEMAN, Esq.)

LEONOR FRESNEL LOREE, Esq.)

WALTER CHARLES MURRAY, Esq.)

JOHN CLARENCE WEBSTER, Esq.)

Commissioners

Arthur Moxon, Esq., K.C., Secretary

George W. Yates, Esq., Assistant Secretary.

Representations were made to the Commission by:

Mr. Irving S. Fairty, K.C., Ontario Association
of Motor Coach Operators,

Mr. Cameron R. McIntosh, Member of Parliament for
North Battleford.

Parliament Buildings, Ottawa,
Tuesday, February 16, 1932.

Morning Session.

The Commission met at 10.00 a.m.

THE CHAIRMAN: Mr. Fairty.

MR. IRVING S. FAIRTY, K.C., (For the Ontario Association of Motor Coach Operators): Mr. Chairman and gentlemen, I think I have a somewhat invidious and troublesome task to perform, in that perhaps some part of the role I am to play will seem rather familiar to your Lordships, because while there are distinct variations, still in some particulars the ground has been already covered by the briefs submitted. However, I trust I shall make the presentation in a manner that will not be reminiscent of a phonograph record. Therefore I shall depart from this printed brief, if it suits your Lordships, and touch the high spots. I may at times proceed in the manner of an advocate, although I agree with your Lordship that this is not a matter of controversy between the railways and the motor coach.

THE CHAIRMAN: I did not mean to suggest, Mr. Fairty, that you should not press your point of view in the strongest way that you can.

MR. FAIRTY: We have no quarrel with the railways, but I must say that apparently they have some quarrel with us. However, there is this to be said: I am not concerned about what the province of British Columbia or the province of Prince Edward Island is doing; I am concerned with that is being done in Ontario. I am not concerned with what is being

done with regard to the truck and the bus; their operators can probably speak for themselves. I am here hoping to show your Lordship that the motor coach in Ontario is there in response to a demand and a need. I want to try to establish that in Ontario the motor coach is adequately regulated and, we think, more than adequately taxed.

As showing that I do represent the industry in Ontario in a fair way, I would point out that the members of the association have an invested capital of \$4,232,000 odd, that last year they operated 9,401,000 coach miles, and had a gross passenger revenues of \$2,815,000.

At this point I submit a map showing our motor coach operations in Ontario. Everything in red in the network represents motor coach operation; the blue are the main and provincial highways which we do not traverse in any way by our motor coaches. You will see, gentlemen, that there is a substantial mileage of public highways of the highest type in Ontario that is not at the present time covered by motor coach operation.

COMMISSIONER LEMAN: The King's highway.

MR. FAIRTY: Yes. According to the legend the blue are main provincial roads.

At this point I might also draw your attention to exhibit No.3, which is headed "Official Motor Coach Time Tables in Ontario". These time tables are analogous to those issued by the railways, and they exhibit in a very striking way the extent to which our business has been coordinated and developed so that practically every point in Ontario of any importance is covered in one way or another by a motor coach.

Before dealing with the matter further I should like

briefly to discuss the history of transportation progress. I do not think it can be gainsaid that transportation is the life blood of human progress. I would call to the attention of your board the fact that the Roman Empire and the Roman roads were coterminus - that while the Empire lasted the roads lasted, when the Empire went the roads went, and a feudal society succeeded; then came the dark ages, and the chief reason for the dark ages, I submit, was the lack of transportation. The nations and the communities in that period, such as Venice, Genoa, The Netherlands and England, probably were the leaders because they had access to that great highway, the sea. But I do submit that all human progress is predicated upon transportation and the development of new means of transportation, and that we should approach the problem in that light.

Modern transportation as we understand it is virtually a new development. It is hard to realize that less than 150 years ago it took fourteen days to go from London to Edinburgh by stage coach. I cannot help recalling that passage in Boswell's Life of Johnstone where Mr. Boswell asked the doctor, "do you think the time will ever come when mankind will be able to travel at fifteen miles an hour?" And the Great Cham with his characteristic vigour answered, "The thing is ridiculous, sir! If a man were propelled through space at that rate he would not be able to breathe!" That is less than 200 years ago.

COMMISSIONER LEMAN: Is this in your brief?

MR. FAIRTY: No. It is only 100 years ago since the steam railroad came, and last year was the centenary of the celebrated experiment when Stephenson's "Rocket" triumphed over "Puffing Billy" and all its other rivals. It was

perfectly obvious that a new and marvellous transportation agency had arrived. It is remarkable how the steam railway was opposed with unanimity by the lobbyists of that day -- the owners of canals, toll roads and stage coaches all combined to try to "equalize competition". But it was in vain. The public were quick to recognize the outstanding superiority of the new method of transportation. The railway came, and the stage coach was ruthlessly put out of business. The stage coach proprietors were probably driven into bankruptcy, but that is the inevitable price we must pay for human progress.

The steam railways had their day. I am not saying that their day is by any means over, but they had their day when they flourished unchecked, they were not at the time subject to regulation, and communities, especially in this western world, were keen to subsidize them by grants of public monies, public lands, guarantees of bonds, and other forms of assistance. And quite rightly so. I submit there is no agency which has contributed more to the upbuilding and emergence of Canada as a nation than the steam railway. We all know that the British North America Act was predicated upon the building of the Canadian Pacific Railway. We concede the enormous benefit -- except possibly from the financial or economic standpoint -- that the railways have been to the life of Canada.

The railways, however, were not qualified to furnish all forms of transportation. In the cities up to 1891 they had to depend upon the horse-car, then after some experiment with cable-cars and storage battery cars came the trolley. The trolley car has been developed to its present efficient form, but in the main its essential principles

were established in the early nineties. It has proved a suitable, convenient and necessary form of local transportation. It is still with us, and it has not been superseded by the bus, despite what some people may say. I submit that the trolley in the large cities has done more than any other invention to make those cities possible and promote a proper communal life. It has been the centrifugal force that has enabled the small man to have his little house and garden in the suburbs.

After a while it became obvious that the electric railway was not necessarily confined to the cities. It began to branch out into the suburbs, and soon we had the interurban electric railroad. True, it was more flexible than the steam railroad; it could give a more frequent service, it could stop oftener and could progress at a rate of speed which was adequate having regard to the character of the journey. Not only was the interurban electric railroad deemed useful for the transportation of passengers, but for a while it became quite the thing to have freight and express carried by the interurban. I need only point out what some of you gentlemen are thoroughly familiar with-- the great development, for example, that centred in Indianapolis, where they had a magnificent terminal for interurban business, both passenger and freight.

For a time it looked as though the steam railroad had found a very serious competitor, but then came the automobile. The picture completely changed, and within the last ten years the electric interurbans have been absolutely driven out of business by the advent of the private automobile. As a result the investment in the electric interurban trolley has lost its value, and that value will never

return. It is the inevitable price we have to pay in the march of human progress. It is another example of the survival of the fittest.

The automobile came with surprising rapidity. In 1910 Canada had 8,967 motor vehicles, in 1920, 407,064, and in 1930, 1,239,888. But not only did the automobile increase in numbers, it increased in cheapness and in efficiency. The automobile has made the most marvellous strides in the last two decades.

Now, the private automobile as a transportation factor is not a competitor with any form of public transportation if you are to consider the economic standpoint. But we cannot close our eyes to the fact that nobody considers the economic standpoint. A man does not care whether it costs him more to travel between his home and his place of business by motor than by streetcar; he wants the flexibility, the quickness, the privacy, and also the feeling of having his foot on the pedal of a high-powered car. When we see that even under present day conditions, when a terrific economic depression confronts us, those who one would think, should pay some attention to the economic side of the picture still insist on driving their private automobiles, no matter what they sacrifice in other ways, then I say I do not think there is any hope of recovering for the transportation agencies the business that has been lost to the private automobile.

The private automobile demanded a better system of highways. Practically all the highways there are now in existence were in existence twenty years ago, but they had to be surfaced. It was only in 1914 that the first highway in Ontario was surfaced -- I mean surfaced with the permanent

surface that we regard today as essential, not gravel.

SIR JOSEPH FLAVELLE: The Toronto-Hamilton highway was undertaken to afford work for the unemployed during the war.

MR. FAIRTY: I recall the occasion vividly, Sir Joseph; it was in the fall of 1914.

THE CHAIRMAN: Ontario must have been a little late. My impression that there were surfaced roads in California and in New York State long before that time.

MR. FAIRTY: Yes.

COMMISSIONER LEMAN: Is your statement that practically all the present highways in Ontario were in existence twenty years ago based on actual figures?

MR. FAIRTY: I have not the actual figures, but I am informed that that is the case by the Ontario Department of Highways. Doubtless the figures could be secured from the Dominion Bureau of Statistics.

COMMISSIONER LEMAN: One would have thought that the facilities of travel would have brought about the building of a number of new roads.

MR. FAIRTY: A good many have been widened.

SIR JOSEPH FLAVELLE: I think all our provincial highways in Ontario are the old roads but with an improved surface.

MR. FAIRTY: With here and there a cut-off.

The Toronto-Hamilton highway is 38 miles long. It is still in good shape. Of course, it is kept in repair, but I am told that the original trowel marks are still visible in many places. Today we have 35,000 miles of surfaced roads in Ontario, of which over 6,000 miles are

built of concrete or other durable material.

Now, I submit that these highways having been laid out and graded and drained prior to the advent of the motor era, and presumably the original cost, if any, for the provision of the right-of-way having been amortized long ago, the motor vehicle should not be properly chargeable with anything but the surfacing of those roads. That is my submission.

COMMISSIONER LEMAN: Have you any figures as to the original cost?

MR. FAIRTY: I understand that the Dominion Bureau of Statistics have attempted to collate such figures.

COMMISSIONER LEMAN: You mean the figure of \$3,000 a mile?

MR. FAIRTY: That, I understand, was presented by Mr. Smith, Deputy Minister of Highways.

Now, here were new roads, a new motor vehicle, and I submit it was inevitable that a demand should arise for some form of public highway transportation. A good many people then -- a lesser number now, but still a good many -- had no access to a private motor vehicle, and they wanted some form of public service. This motor coach service started in the smallest possible way. One of our members named Collacutt told me he started in his own Ford to give what has been known as a "jitney" service. Now he has developed a very substantial business and has become a man of substance in the community. For a while the ordinary public vehicle was a jitney. Then came the truck chassis with a crude passenger body mounted upon it. I concede that over a certain period there was no proper regulation: we had

fly-by-night operators, cut-throat competition, people going out of business the moment a judgment was obtained against them, and all that sort of thing. But it was not very long before the province recognized the necessity for public regulation, and in 1923 the Public Vehicle Act of Ontario came into force. This statute is strikingly like the present act, in fact it has been very little amended. Since that time public transportation on the highways of the province has been regulated. I will deal with that later on. In the meantime there was a striking development in motor coach design, and without going into details I may say that at the present time the motor coach on our highways is modern, safe and commodious, and is popular with those who use it.

THE CHAIRMAN: That is, you mean it is safe for the passenger.

MR. FAIRTY: It is safe for the passenger; and I submit it is as safe as any other motor vehicle for those who come in contact with it, because drivers of private automobiles come in contact with the motor coach very seldom compared with the number of collisions they have with motor vehicles handled by other types of drivers.

THE CHAIRMAN: Of course, that is one point in your favour, you have professional drivers.

MR. FAIRTY: Not only that, but they are very careful, for their livelihood depends upon their care and caution.

THE CHAIRMAN: That is so. At least my own personal experience is that men who make their living by driving for a public company are extremely careful. I fancy that in most cases if they get into any accident it practically means

the termination of their engagement. So it is their business to keep out of trouble.

MR. FAIRTY: They are dismissed if it is their fault.

THE CHAIRMAN: I doubt if they get much mercy.

MR. FAIRTY: We cannot afford to give them very much mercy.

THE CHAIRMAN: I imagine that is a point in your favour.

SIR JOSEPH FLAVELLE: Under the regulations of your association the drivers are put through a course of training, are they?

MR. FAIRTY: Not by regulation of the association. They have, of course, to pass the examination prescribed by the Ontario government for professional drivers. But apart from that all the larger members of our association, if not every member, have a system of their own supplementing that examination. I have no particular statistics as to accidents, and they are difficult to get because people grade accidents so differently, but such statistics as I have been able to secure indicate that in the United States the motor coach from the standpoint of accidents is six times as safe as the private automobile -- not to the passenger, but six times as free from accidents. We know that since motor coaches commenced to operate on the highways of this province there has been only one fatal accident, and in that case the motor coach was hit by a switch engine. The driver of the motor coach was exonerated from responsibility, and the accident was said to have been the fault of the railway people.

THE CHAIRMAN: I suppose the motor coach to some extent suffers from the reputation of motor trucks in the

public mind.

MR. FAIRTY: I imagine they do. Of course, on highways crowded such as our highways are at times it is more difficult to get past a large vehicle than a small one, and there is a certain prejudice against the motor coach in that respect; but certainly all our members insist on the utmost courtesy on the part of their drivers towards other drivers.

SIR JOSEPH FLAVELLE: Have you considered that by reason of what you referred to a moment ago as the difficulty of passing the large motor bus, and the increasing use of the highways by big motor trucks with trailers, the tendency will be to widen the highways? That means additional highway construction costs.

MR. FAIRTY: May I say, Sir Joseph, that the tendency will be there, apart from any use of the highways by the motor coach at anyrate, because motor coach operation would be less than 1 per cent of the highway traffic. Undoubtedly the tendency will be towards wider highways. The highways of New York State, for example, are substantially wider than our highways in Ontario, and I think the tendency will be to widen our highways to the same extent. But I submit that that is not caused primarily by the presence of the motor coach upon the highway.

COMMISSIONER LEMAN: Do you make any distinction between the motor bus and the motor coach?

MR. FAIRTY: In the industry we class the bus as the local vehicle; the coach is regarded as the interurban vehicle.

COMMISSIONER LEMAN: You would call it a bus within

the municipality and a coach when used on interurban service.

MR. FAIRTY: That is really the distinction.

COMMISSIONER LEMAN: It is purely arbitrary, is it?

MR. FAIRTY: Yes. In fact in Toronto all the vehicles of the Gray Coach line are called coaches, and all the red vehicles are called buses. The latter operate only on local and suburban services except in cases of emergency.

COMMISSIONER MURRAY: Are the routes for the coaches fixed?

MR. FAIRTY: By provincial permit.

THE CHAIRMAN: Are you prepared to deal with the point put to you by Sir Joseph Flavelle as to the widening of the highways? I do not follow what you say about that.

MR. FAIRTY: I submit that until the use of the highways by the motor coach at any rate becomes very much greater than it is today, it would be unfair to suggest that the widening of the highways is necessitated by the presence upon them of the motor coach.

SIR JOSEPH FLAVELLE: Except of course that the size of the vehicle adds to the danger of accidents, owing to the difficulty in overtaking or passing. To that extent, without being arbitrary towards the larger vehicle, it would be one reason why, owing to the increased motor traffic, it ought to go on a highway of its own or the existing highways should be widened sufficiently to ensure a reasonable degree of safety. Perhaps if we once reach the point where we definitely apply all the taxes received from motor vehicles to the upkeep and amortization of the highways, it would become a matter of consideration in fixing the scale of motor vehicle taxation.

THE CHAIRMAN: Before you answer that, Mr. Fairty,

may I put this question to you: you don't seriously dispute that these large vehicles are an embarrassment on the highway, do you?

MR. FAIRTY: I imagine they are an embarrassment to green and nervous drivers. Personally I do not find them any embarrassment.

THE CHAIRMAN: I am afraid we have to take things as they are.

MR. FAIRTY: Yes.

THE CHAIRMAN: I am afraid that the number of incompetent and nervous drivers is very large.

MR. FAIRTY: I imagine that is a circumstance which has been taken into account in fixing the heavy taxation which the motor coach has to pay at the present time.

THE CHAIRMAN: That is taking you away from the precise point Sir Joseph is putting to you.

MR. FAIRTY: I do not see any reason at the present time why the advent of a vehicle which constitutes less than 1 per cent of the traffic should necessitate any widening of the highways. There is this to be said in its favour: from the standpoint of the carriage of passengers it is the most economical vehicle on the road, and if it were not there you would have probably eight or ten automobiles doing the same work. I would imagine that the present motor coach is really helping to relieve traffic congestion upon the highways, and to that extent it is relieving the government of the necessity of constructing new highways.

THE CHAIRMAN: You don't really think that if you did not have the motor coach every person who now rides in it would have an automobile?

MR. FAIRTY: They would not have automobiles of their

own; but I do say this, and quite frankly too, that they would do their best to get into their friends' automobiles, and they would do as a great many artisans do in the district north of Toronto, they would club together, buy a fifty dollar second hand car and ride to and from their work.

THE CHAIRMAN: Is not your strong point really this, that the motor coach serves an absolute need?

MR. FAIRTY: It does; that is my strong point. But I do submit that we would not be taxed the way we are-- because we do not hurt the highways, as I am going to point out -- unless there were other circumstances. Possibly the necessity of widening the highways in the future is one circumstance that justifies our having to pay twenty-nine times what the private automobile pays by way of taxation.

COMMISSIONER WEBSTER: Mr. Fairty, if we had some approximate figures of the accidents that have been reported, we would be able to gauge the danger of the motor bus and motor coach on the highways. We need not discuss the thing theoretically if we have the facts.

MR. FAIRTY: I can speak with some authority, Commissioner Webster, I think, because I am head of the legal claims department of the Toronto Transportation Commission, and I know the difficulty of classifying accidents.

Every organization has a different system of classification. Then, too, how are you going to apportion blame. I remember very distinctly a case that we had at Niagara Falls a couple of years ago. Our driver pulled to the side of the road, and a drunken motorist ran into the motor coach and nearly killed a passenger. Should it be said that under the circumstances there was any blame attaching to the

motor coach driver? There are great practical difficulties in the way of collating the statistics. Really I do not think statistics are of any great value on that point.

Then I call the attention of the Commission to the Public Vehicle Act of Ontario and the regulations made thereunder. I submit it as exhibit No.2.

THE CHAIRMAN: You are coming to the regulations dealing with insurance, are you?

MR. FAIRTY: I intend to touch upon them. The most important feature of the legislation relative to the regulation of the motor coach is, I think, the system of annual permits. Except that it deals with quite a different subject, it is not dissimilar to the practice under which the old liquor licenses were issued annually. Until prohibition came into force they were considered to confer more or less a vested interest. The same thought has grown up with reference to the permits I am speaking of.

SIR JOSEPH FLAVELLE: That is, you get practically a continuous franchise, subject to such changes as may be made from time to time.

MR. FAIRTY: Yes. I have attempted to define for the Commission what the practice of the department has been with reference to these permits. Theoretically, of course, the discretion of the department is unfettered; practically, it is quite a different story.

THE CHAIRMAN: In point of law they have absolute discretion, have they?

MR. FAIRTY: Yes.

THE CHAIRMAN: There is no such remedy as you would have, for example, in England in the case of a licensed

house?

MR. FAIRTY: No. In England the Ministry of Transport has power under the new act with respect to motor permits.

THE CHAIRMAN: Absolute discretion.

MR. FAIRTY: Yes. In the United States the matter has been more or less relegated to the public utility commissions in the various states; but in Ontario it has not been transferred to the Ontario Railway and Municipal Board, it has been retained by the minister.

THE CHAIRMAN: The action of the department is not reviewable by any commission?

MR. FAIRTY: No.

COMMISSIONER LEMAN: Is it your opinion that the permit should be on a yearly basis or for a longer period?

MR. FAIRTY: I would much prefer it on the yearly basis. On this basis there is some certainty of renewal, but if for a longer period it might be suggested: Now the period is over we will look for somebody else to operate the franchise.

COMMISSIONER LEMAN: But nobody can amortize his equipment on the basis of a yearly permit.

MR. FAIRTY: No. I submit that these are the considerations which have governed the department in the granting of the permits. I refer to page 5. of the brief.

THE CHAIRMAN: When you speak of basis, I gather you mean that in point of law the permit is on a yearly basis.

THE CHAIRMAN: But in point of practice --

MR. FAIRTY: I am coming to that. Prior to the regulations there were two operators between Toronto and Oshawa

and between Toronto and Hamilton. The department were very gratified when we were able to consolidate those holdings into one hand. These, I submit, are the considerations which have led to a rigidly defined policy by the department in respect to the issuance of permits:

- (a) Present traffic offering anywhere in the province does not warrant the issuance of more than one permit for local travel between any two points, and the public interest therefore is best served by permitting one responsible operator only to furnish such service.

I have already mentioned the fact that there were two operators between Toronto and Oshawa and Toronto and Hamilton when there was no regulation.

- (b) Every permit holder who continues to furnish public service in an adequate manner tested by the standards prescribed by the department can make the investment necessary to give and maintain such service, in the confidence that he will secure a renewal from time to time of such permit.
- (c) The department exercises a real supervision over permit transfers and endeavours in all cases to have the transferee an operator of substance and reliability, preferably the existing transportation agency in such vicinity.

I think that summarizes the practice of the department, and I suggest that the same practice obtains where the matter has been relegated to public service commissions, as in the United States. They issue what are termed "certificates of convenience and necessity."

It is true there is some basis for the suggestion-- a sinister suggestion, if you will -- that the terms "monopoly" and "perpetual franchise" can be applied to these permits, but nevertheless I submit it is the only system that could have been adopted in the public interest.

SIR JOSEPH FLAVELLE: Of course, Mr. Leman, we had an illustration of the difficulty of a fixed term in the case of the termination of the franchise of the Toronto Street Railway Company. The advantage of this apparently less safe system is that in essence if the operator is financially sound and does his work to the satisfaction of the department he gets his license as a matter of course, but not as a matter of law.

COMMISSIONER LEMAN: But there is an element of danger.

SIR JOSEPH FLAVELLE: There is, but probably not as great as the other danger to the capital invested.

COMMISSIONER LEMAN: Of course, under that franchise the street railway system was to have been taken over at scrap value.

MR. FAIRTY: If it was to have been taken over as a going concern on its merits it would have made a big difference.

There are now operating in Ontario 768 motor coaches or buses owned by 165 operators. The great majority of such operators have only one or two small vehicles and furnish either school service for children and teachers or a small local service in response to some local need. In addition approximately 176 buses are employed wholly in urban or suburban services, so that the number of coaches

in Ontario engaged in strictly interurban service would not exceed a maximum of 546. Our association represents the bulk of such operation. As I say, the vehicles are commodious, comfortable and modern. The statistics submitted to your commission in connection with the Toronto Transportation Company's brief show how little these coaches are subject to interruption by weather conditions. They run on strict timetables, and they furnish a frequent, commodious and safe service. I think this bespeaks fair treatment of their passengers and fair rates, or else the business would not have been brought to its present position.

THE CHAIRMAN: What do you mean by fair rates?

MR. FAIRTY: The fares are not too high. I submit, in spite of what others may say, that our highways are not wholly or even primarily built for pleasure. I have heard it said by some that the primary purpose of our highways was pleasure.

THE CHAIRMAN: They are built to serve the purposes of the society using them, that is, for every kind of purpose.

MR. FAIRTY: I submit that every citizen of Ontario is justly entitled to share in the use of the highways, and were it not for public highway transportation about half of the population of Ontario would be deprived of their rightful use of the highways. In substantiation of this submission I may state that in 1930 there were 491,000 passenger automobile registrations in Ontario for an estimated population of 3, 377,000. Allowing an average of $3\frac{1}{2}$ persons per car -- a high estimate -- practically one half of Ontario's population is shown to be without access to a private motor car. Are they going to be allowed to

use our highways, or are they not.

There are also many communities in Ontario which would be entirely without any public transportation if they did not have the use of the motor coach; and they are not all small rural communities either. I refer especially to the district north of Toronto, extending from Newmarket to Lake Simcoe, including Jackson's Point and Sutton. For a while that area was served by the steam railroad; then the interurban came in. That is a thickly settled summer community, and even in winter there are a fairly good number of people there. If the motor coach was taxed off the roads they would have no public transportation whatever.

SIR JOSEPH FLAVELLE: The electric line had to close up.

MR. FAIRTY: Yes. I should like to deal with that right now. Yesterday Colonel Vien was asked if he could prove that the electric lines were put out of business by the private automobile. He said he could see no other factor. I should like to deal with that in a little more detail, and I think I can prove to the satisfaction of this Commission that it was the private automobile, and not the motor coach in any sense, which had anything to do with the demise of these electric lines. Take, for example, this very line, the metropolitan division of the old Toronto and York Radial, which extended for fifty-two miles north of the city limits up through Jackson's Point to Sutton.

THE CHAIRMAN: That was an independent concern not connected with the Toronto Railway Company?

MR. FAIRTY: It was a subsidiary of the old Toronto Street Railway company. It turned off the highway at

Newmarket and then ran on its own private right-of-way. That railway before the advent of the private motor car was a sound investment and a good paying property. After what in Toronto we call the "clean-up deal" the line was taken over and operated for a time by the Provincial Hydro Electric Commission, but earnings went down and down and down. Some blamed the Provincial Hydro Electric Commission for the unprofitable operation, but I think unjustly so. Then the line was handed over to the Toronto Transportation Commission to operate. That was on January 7, 1927 -- not very long ago. For a time the executive officials of that commission thought they had a chance to make the line pay. They reduced expenses by using local facilities, their own car shops and that kind of thing, and they cut down the service to a certain extent; but there was no hope for it. Although there was no public vehicle competition whatever at that time the receipts diminished to such an extent that finally the line had to be completely abandoned, with a loss of all the city's investment in it. For a time the track lay there empty and unused. Then the four municipalities south of Richmond Hill thought they would prefer a more suitable form of service than the motor coach, and they purchased the line between Toronto and Richmond Hill at a scrap value of, I think, some \$70,000. Now the commission is operating it for them and they have put on one-man light-weight cars, a substitution which has substantially cut the power costs, but even with all these economies the line does not pay. It may be that when the present depression passes and the community becomes more thickly settled the line will pay. I should add that at the present time there is no motor coach competition with that line;

the Gray Coach lines are only permitted to pick up passengers after they get beyond Richmond Hill.

THE CHAIRMAN: Are they giving as good a service as they did when the line was prosperous?

MR. FAIRTY: I do not think they are, because the demand is not there. They are giving as good a service as the demand warrants.

COMMISSIONER LOREE: I understand you to say that it is the bus lines that have driven that trolley line out of business.

MR. FAIRTY: No, I say it is not the bus lines.

COMMISSIONER LOREE: Private automobiles?

MR. FAIRTY: Yes. I have here Mr. Foster, who for years was general manager of the Brantford line; he is now vice-president of our association. He had a similar line between Hamilton and Brantford and Paris, a fairly well settled community. He had no competition and the line was prosperous until the private automobile came along.

THE CHAIRMAN: Can you fix about the time when this change took place?

MR. FAIRTY: I would say somewhere between 1925 and 1928 it became impossible to operate interurbans profitably. There are a few operating here and there now, but, like the London and Port Stanley they are on their last legs.

SIR JOSEPH FLAVELLE: How are you getting on with your interurban running to Port Credit, 12 miles out of Toronto?

MR. FAIRTY: We term that more or less a suburban service. It is really an extension of the city system. But even that line is not a paying proposition.

COMMISSIONER LOREE: There is another aspect of this

thing which I have not heard alluded to, but which it seems to me ought to be given consideration. These trolley and interurban lines were built on an estimate which included the costs of the plant, the wages to be paid the employees, the cost of electricity, and the revenues to be derived on a given scale of charges. When the war came on the motor man who on that estimate had been employed, as I recall it, at thirty-eight cents an hour, had his wages sharply advanced to sixty-eight cents an hour; but there was no change in the fares, and the properties became unprofitable. Now, is the embarrassment of the trolley lines to be charged solely, or even preponderantly, to the motor vehicle, or is it to be charged to the fact that their expenses sharply increased without any increase in the charges that they were able to make for their services?

MR. FAIRTY: I know the situation quite well, Mr. Loree. I recall reading, for example, the report of President Wilson's Commission made in 1920, where it was pointed out that the electric lines in the United States were not paying one per cent on the capital invested at that time, due to war conditions and the immense rise in wages, and the fact that fares had remained stationary. I think the answer is this, Mr. Commissioner, that since that time there has been a substantial effort to increase fares, and they have been substantially increased throughout the United States. There the day of the five-cent fare is over.

COMMISSIONER LOREE: No, the five-cent fare is prevalent. In New York that has been a political issue from the start.

MR. FAIRTY: But in New York you have to pay three

cents for every ride you take on that system.

COMMISSIONER LOREE: I have stopped riding on it, but I used to pay five cents for a ride from the Bronx to Brooklyn.

MR. FAIRTY: But I ask, is that a fair test? Through political considerations the companies have been refused an increase in fares, with the result that every time a man rides on that system three cents is paid by the New York taxpayer. It has been a political football.

THE CHAIRMAN: What do you mean by that?

MR. FAIRTY: I say that the cost of the ride is at least eight cents, that three cents of the eight is paid by the New York taxpayer.

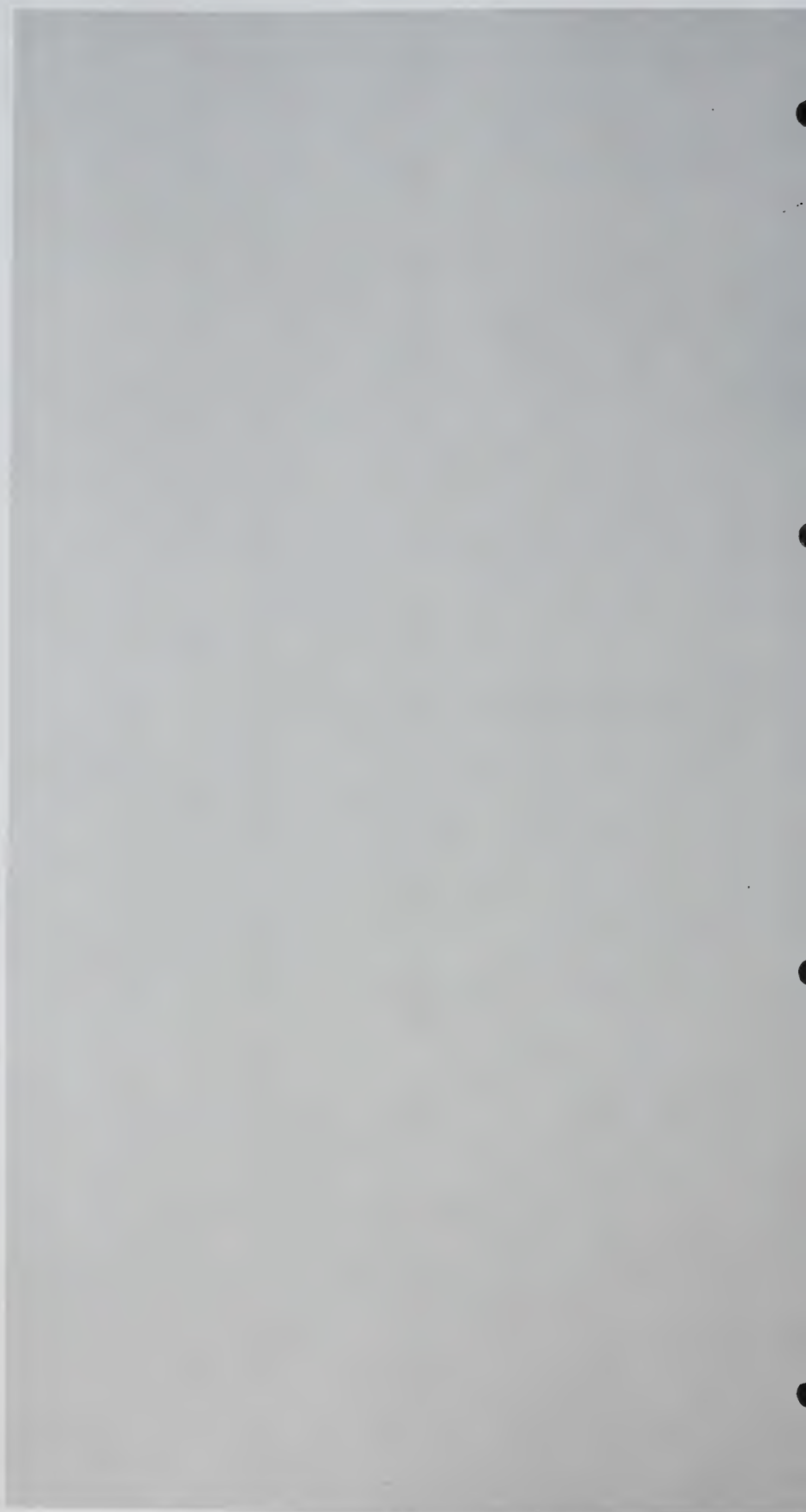
THE CHAIRMAN: How?

MR. FAIRTY: Because they have to pay the deficit.

THE CHAIRMAN: They are owned by whom?

MR. FAIRTY: They are owned, I understand -- Commissioner Loree will correct me if I am wrong -- by the city of New York. But I am quite certain I am correct in my statement that there is a deficit of three cents on every ride which is absorbed by somebody else.

COMMISSIONER LOREE: Take the district including Albany, Troy and Schenectady, with which I am very familiar. There the fare is five cents; the wages were put up by the labour board during the war, with no possibility of getting the fares up correspondingly, and from the position of having a surplus that warranted a four per cent dividend and the expenditure necessary to improve the property, the system has gone into a receiver's hands. Why charge the buses with something which may be due to some entirely different cause?



MR. FAIRTY: There is this to be said; It has been proven that increasing the fare does not necessarily grant the companies more revenue.

COMMISSIONER LOREE: But you have the other alternative of reducing your expenses.

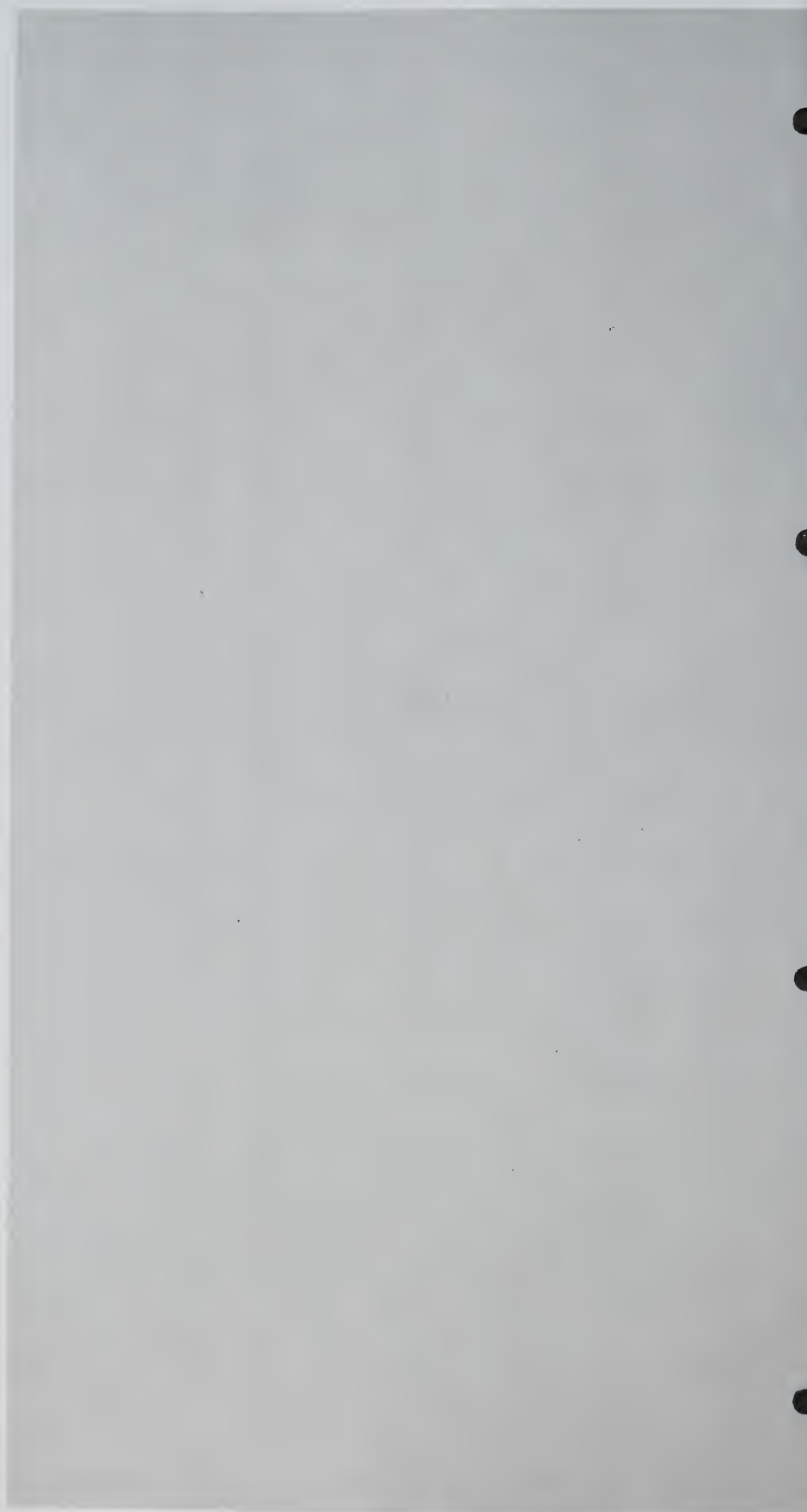
MR. FAIRTY: Living conditions changed during the war, and I know that wages did go up. On the Toronto Street Railway up to 1912 the wages were eighteen cents an hour; then they went up to sixty cents and they have stayed there ever since; but the fares did not go up, and the Toronto Street Railway Company lost a million dollars the last year it was in existence. The Boston Elevated was put out of business by the conditions that Mr. Loree has detailed. They tried to raise their fare to ten cents; but they did not get any more revenue. The railways are in a very serious predicament at the present time all over the United States.

COMMISSIONER LOREE: What I suggest is that the buses have assumed the onus of having put the interurbans out of business. Now, do they deserve that responsibility? Was it not something else that put the interurbans out of business?

MR. FAIRTY: It was a combination of circumstances. But I do submit this that had the competition of private automobiles not appeared, the former patrons of the lines would have had to pay an increased fare.

COMMISSIONER LOREE: Or the lines would have had to reduce their expenses.

MR. FAIRTY: I think most of these lines were very well managed, Commissioner Loree; I never heard to the contrary.



COMMISSIONER LOREE: Do you think a line is well managed if it increases its wage rates from thirty-eight to sixty-eight cents?

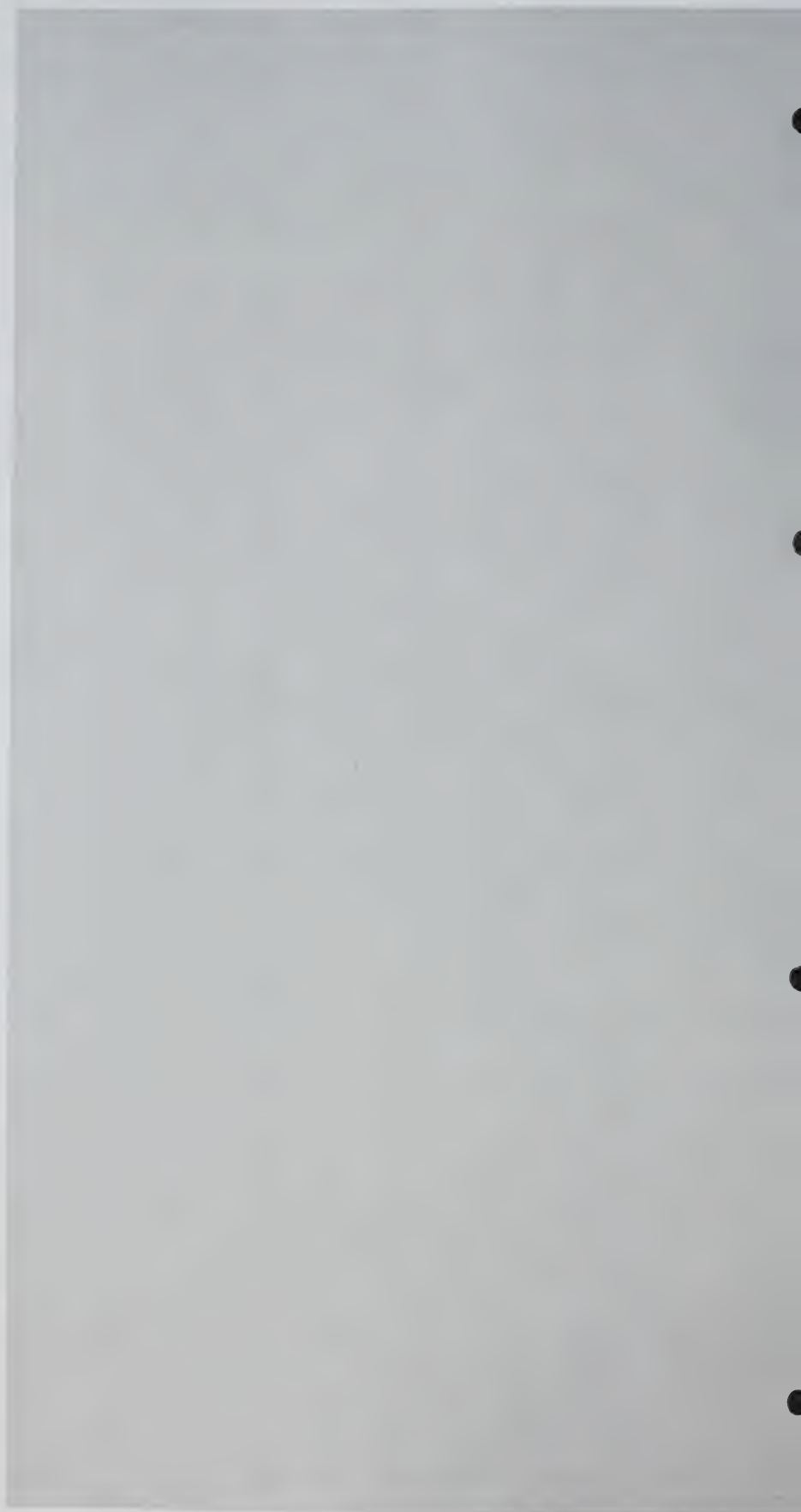
MR. FAIRTY: That was something entirely beyond its control in regard to the McAdoo award.

THE CHAIRMAN: It is not a question of criticising the management, it is a question of trying to get at the cause of this result. Mr. Loree's suggestion is that it was not merely the diminution of patronage due to the use of the automobile, but this increase of wages that made it impossible for the railroads to give a proper service.

MR. FAIRTY: My answer to that is this: It was undoubtedly a very serious factor because fares lagged long behind wages; but had not the automobile appeared on the scene and fares had gone up, the roads would have been restored to their former position. People, however, would not pay a ten-cent instead of a five-cent fare and resorted to the automobile, so that the railroads were just as badly off as they ever were.

COMMISSIONER LOREE: What gives me concern is the future of the motor bus. You have shown an investment here of something over \$4,000,000. In Albany and Troy we made an investment of forty-one per cent of that. These buses have never paid, neither do the private bus lines in both towns, and I am advised that they are about to go out of existence. Are the people going to be left without means of transportation? That is what concerns me.

MR. FAIRTY: I am going to answer that question bluntly, Commissioner Loree. If a community cannot afford to pay for public transportation it should not have any.



And that applies even to Canada. But I make this further answer, that the experience of our associate members is that they are not likely to go out of business. They are doing very well, thank you, and they are not complaining, they think they can continue. If they find themselves in difficulties there is one other solution, they have a chance to raise their rates, but just at the present time they do not need to..

THE CHAIRMAN: Your rates are controlled by the Minister of Highways, not by the commission?

MR. FAIRTY: Yes. I am going to say frankly that all our members will not give us their figures on these matters, they will not expose their profit and loss balances to the scrutiny of other members. But you have had the Gray Coach line figures laid before you, and I think their statement shows that the company is making money and making proper provision for all forms of depreciation.

COMMISSIONER LOREE: I think the answer generally is whether a line is paying dividends or not. I say there is scarcely a line in Canada that has testified that it was on a dividend-paying basis.

MR. FAIRTY: Do you mean buses?

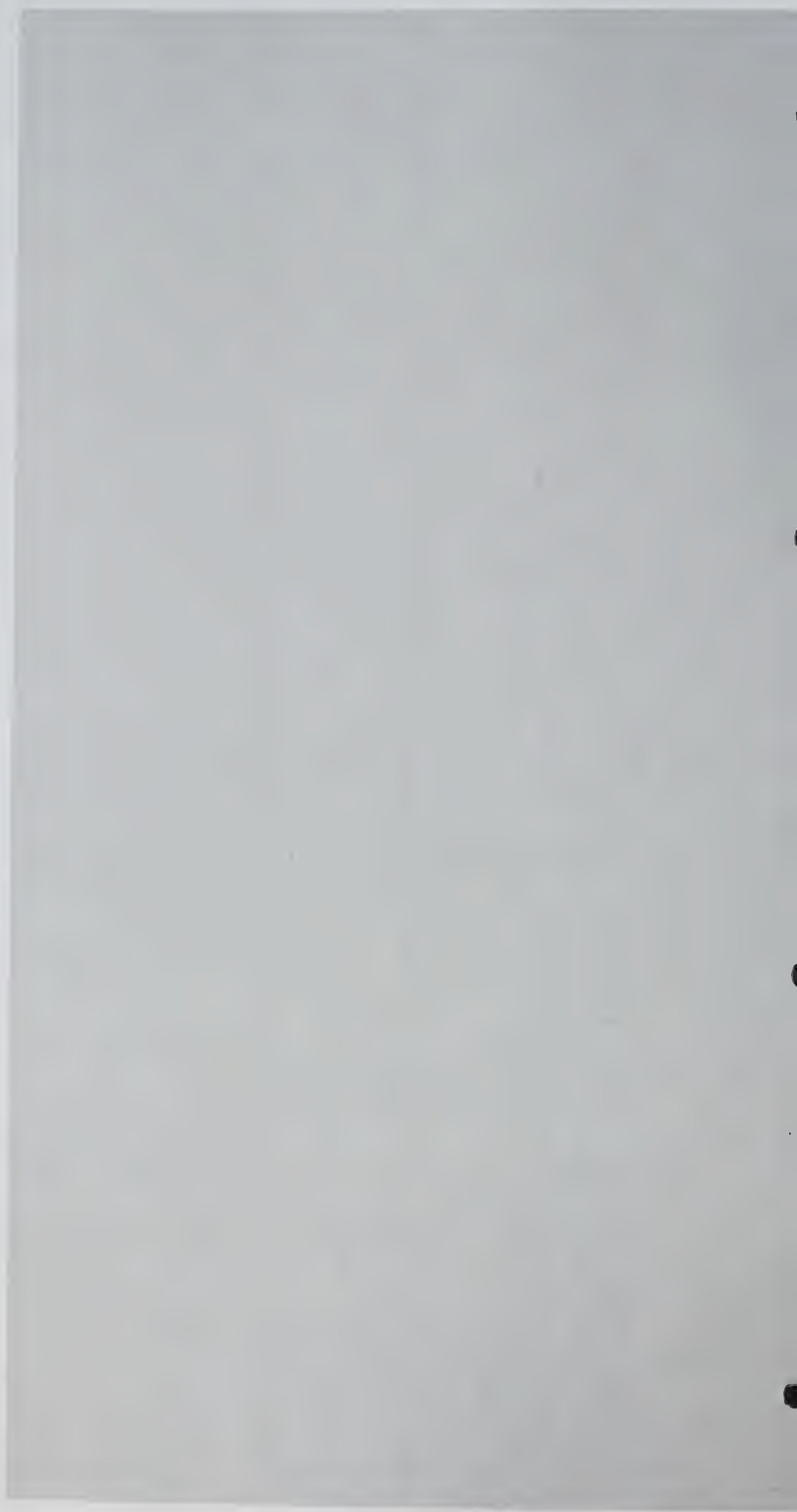
COMMISSIONER LOREE: Yes.

MR. FAIRTY: The Provincial Transport, the Montreal concern, claim they are on a dividend-paying basis.

COMMISSIONER LEMAN: Oh, no.

MR. FAIRTY: I am wrong then; I thought they did so claim.

SIR JOSEPH FLAVELLE: The Gray Coach pays five per cent on its capital.



MR. FAIRTY: That is all it is trying to pay.

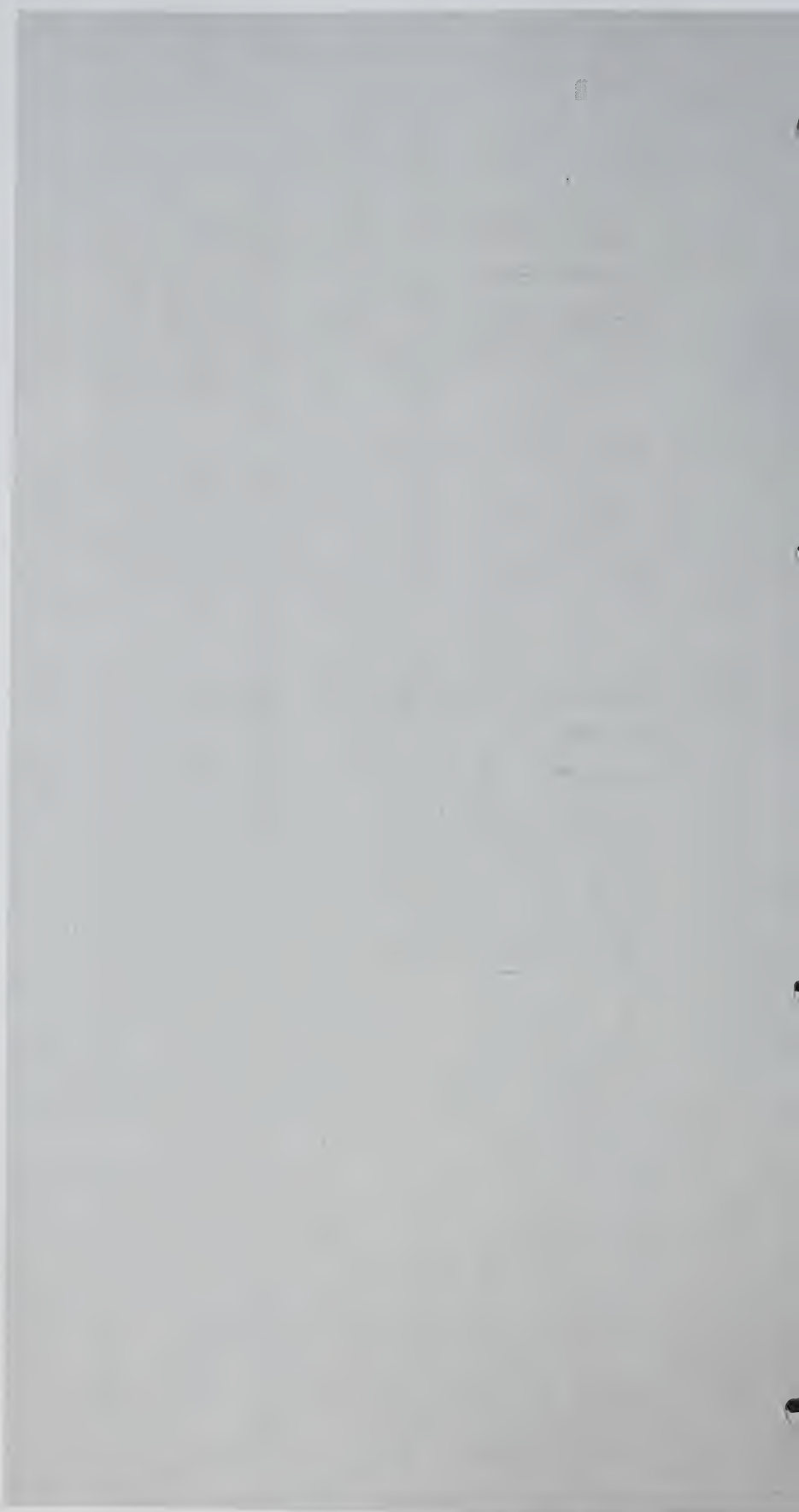
COMMISSIONER LEMAN: Mr. Fairty, is there anything in this suggestion, that a slight increase in the fares and a slight reduction in taxation would just about place a great many of the motor coach and motor bus companies in a position to make money or pay a reasonable dividend on their capital?

MR. FAIRTY: I would prefer, Commissioner Leman, to have a man speak to that who knows the details more intimately than I do,--Mr. Barker, our secretary treasurer. But none of my people have been complaining that they are not making money. I have not said they are all making money. For instance, the new line started last summer between Toronto and Detroit, owned jointly by Toronto interests and Greyhound interests, did not make money last year. But they are quite willing to carry on because they think if they can continue to do as well as they have been doing during this period of depression, they are reasonably certain of making money when conditions improve.

THE CHAIRMAN: In answer to Mr. Loree's point to you, are you in a position to say how many of your concerns whose book-keeping is of the right type, that is to say, with proper allowances for depreciation and so on, are really earning dividends?

MR. FAIRTY: I cannot, because, as I say, I do not think they will give us their figures.

THE CHAIRMAN: It is not so much a question of what they are actually paying themselves or what they are actually distributing, but how much ought they to pay themselves or distribute on a proper business basis, if they ought to distribute anything?



MR. FAIRTY: Mr. Collacutt is not even incorporated yet. As I say, he started with a broken-down Ford; now he has a plant worth several hundred thousand dollars.

COMMISSIONER LOREE: Is that being bought on the installment plan?

MR. FAIRTY: It may be, but he has been in business now for almost ten years.

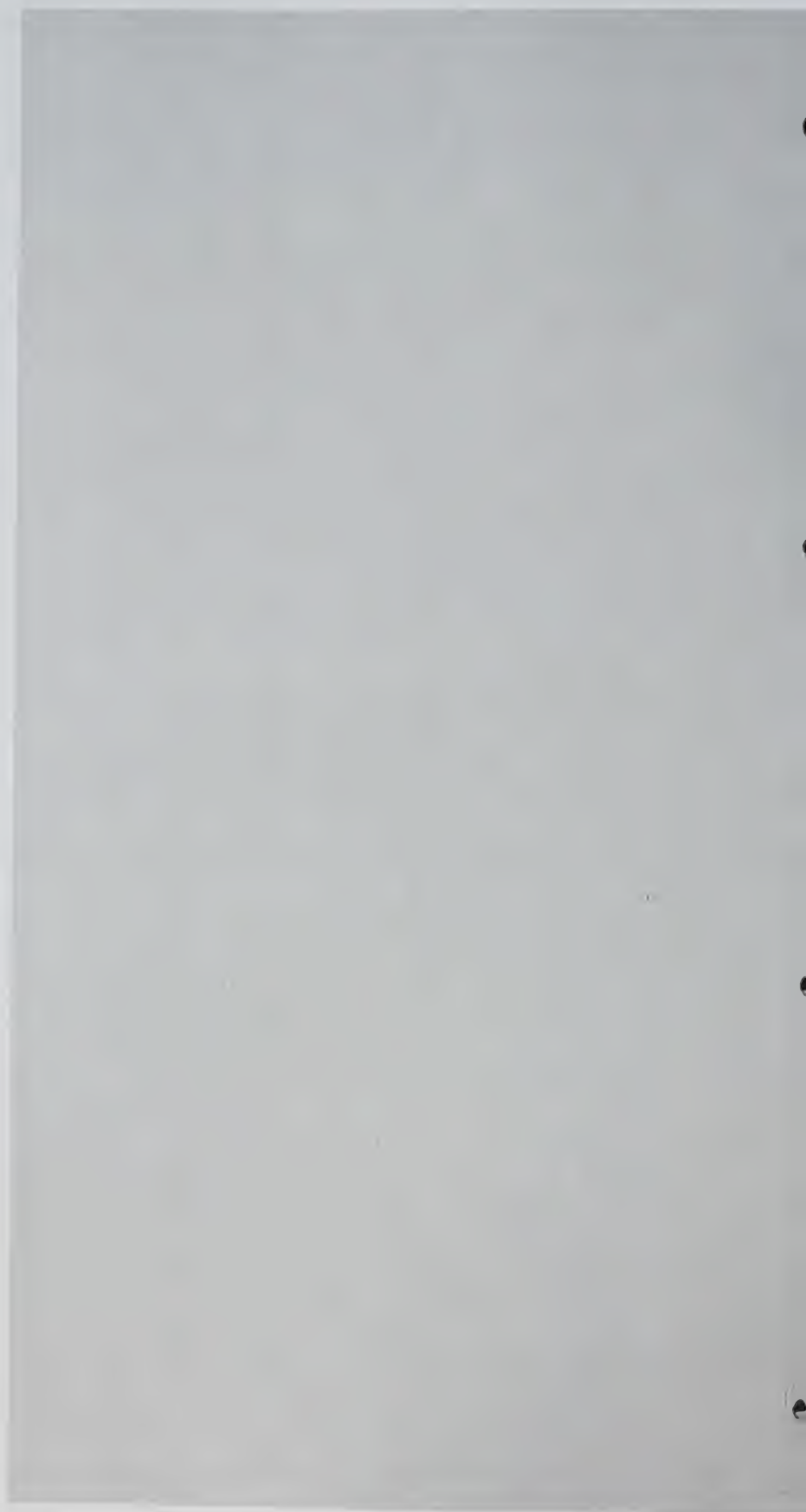
COMMISSIONER LOREE: I have wondered whether a large amount of this business was not super-salesmanship.

MR. FAIRTY: It was in the early stages, but I think that period is pretty well past. However, I cannot say anymore on that. I want to proceed, if I may, with my presentation.

THE CHAIRMAN: Yes.

MR. FAIRTY: In my brief I point out how the motor bus has developed in the United States. The motor bus business there has grown from nothing to an existence of 95,000 vehicles, about 45,000 of which are common carriers operating over more than 300,000 miles of route, transporting nearly 2,000,000,000 passengers, with an investment in common carrier buses of more than \$375,000,000. While common carrier buses likewise transport school children, there are nevertheless in the United States about 45,000 school buses transporting over 1,000,000 school passengers daily.

I should like to stress the international side of that. Here we have our neighbors to the south who have developed a secondary highway transportation system of this character. Is Canada going to be allowed to lag behind? I think we should keep up in the march of progress, con-



sistent with Canada's ultimate position in the comity of nations.

COMMISSIONER LOREE: You would not do that, would you, to the extent of repeating their mistakes?

MR. FAIRTY: Experientia docet.

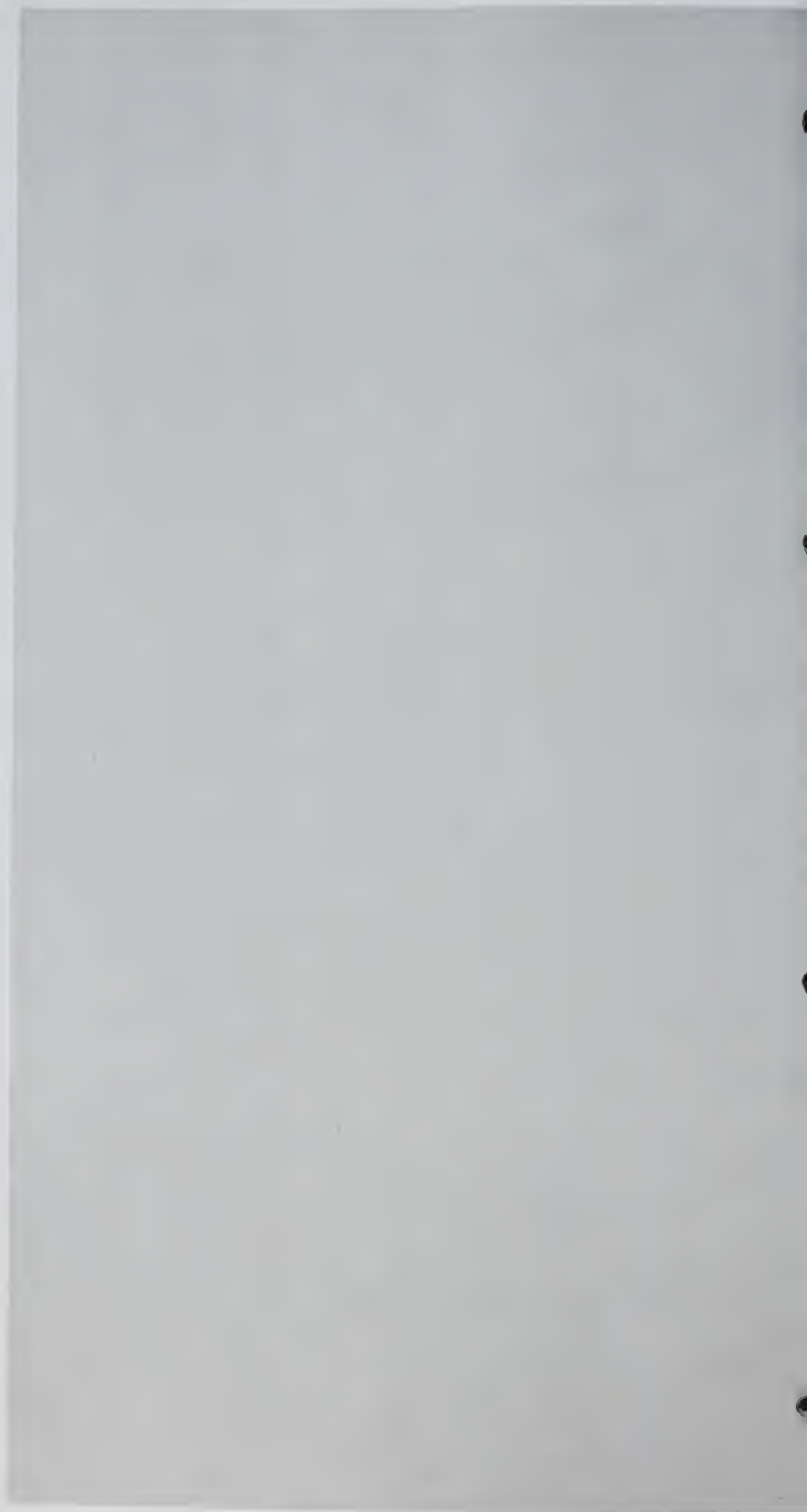
Before dealing with the effect of motor coach competition on the steam railroad revenues, I would say our contention is that this must be looked at a little from the standpoint of the public, and not from the standpoint of the bus, the coach, or the railroad. We think we are entitled to a fair field and no favour, and if we hurt the railroads and it is inevitable, then I say the economics of the situation must prevail and they have got to stand it; but I do not think we do hurt them to the extent complained of.

THE CHAIRMAN: Are you leaving the highway aspect of this entirely, regulation, and so on?

MR. FAIRTY: I was going to deal with regulation later.

I have very few quotations in this brief, but I want to quote the views of Mr. Flynn, Examiner of the Interstate Commerce Commission, dealing generally with the whole question of highway regulation in the United States. He says:

It is the duty of government to see that adequate and efficient transportation service for the public is supplied and maintained. The problem, "how can the commerce of the country be moved most efficiently and economically with assurance of dependable service?" should be approached as one of national transportation and not primarily as one of transportation agencies. Legislation and regulation should not be with a view to preserving and protecting long-existent forms of transportation by stifling or restricting new forms of transportation which may be better equipped to perform certain transportation functions. The public is entitled to the best transportation service. No carrier by rail, water, motor vehicle or air has a vested right in the transportation of a single passenger or a pound of freight.



THE CHAIRMAN: I do not think anybody will dispute that.

MR. FAIRTY: Some of the steam railroads accept it unhesitatingly; others, I submit, give it only lip service.

COMMISSIONER LOREE: And some of us deny it.

MR. FAIRTY: I have reason to believe that suggestions have been made which would treble the taxation on the motor coach in Ontario. Of course that would have the effect of driving every motor coach off the road next day; we could not possibly begin to pay it. At the present time we pay one full day's revenue to the government every twelve days; if we had to give three days revenue it could not be done, and we would have to quit immediately.

SIR JOSEPH FLAVELLE: You pay one full day's revenue to the government every twelfth day?

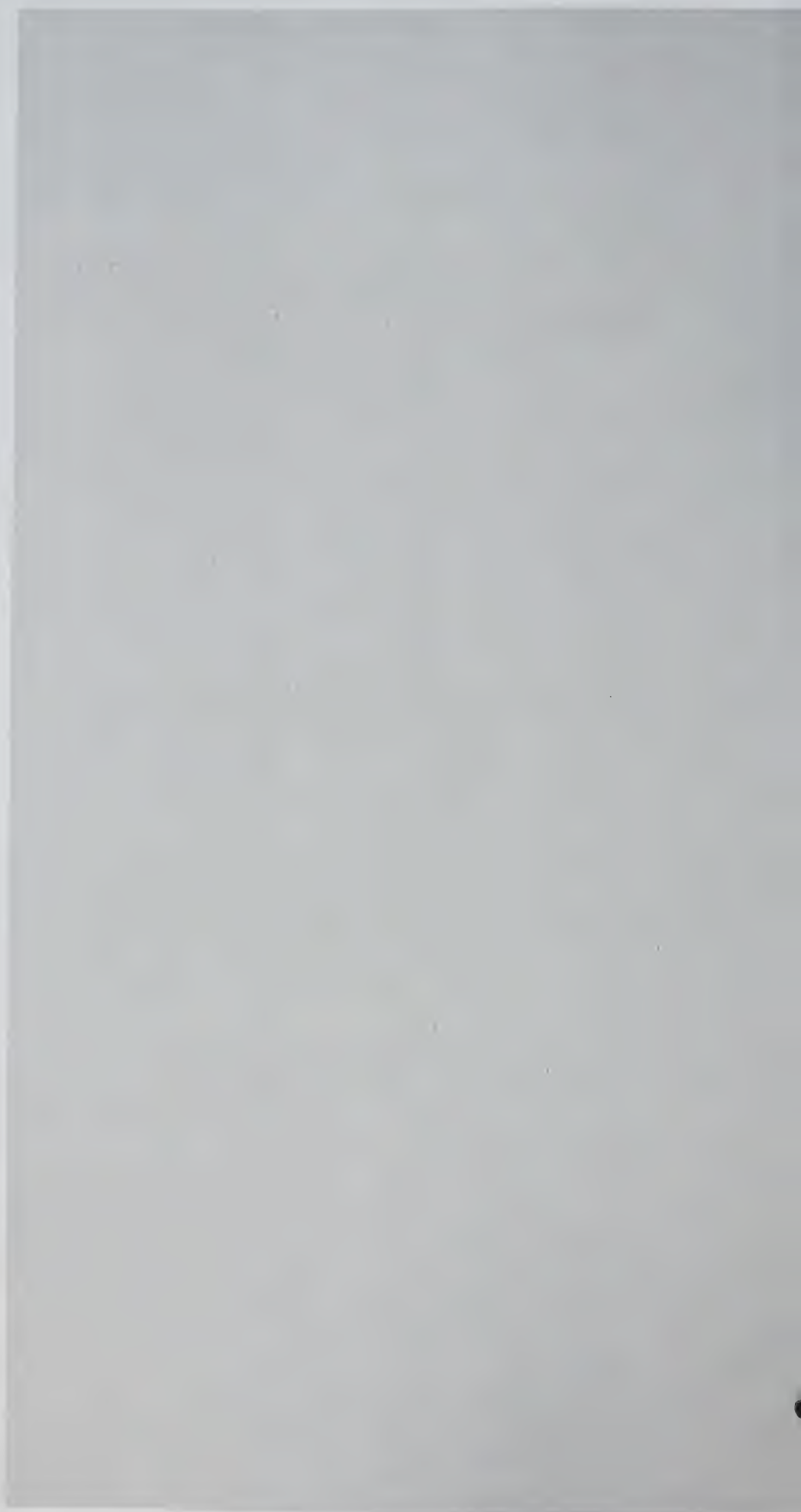
MR. FAIRTY: Yes.

COMMISSIONER LOREE: Do you consider that serious when one of the members of this Commission told me he went to work on the first of January and it was the fifteenth of July before he got any money for himself; the government deducted all the rest.

MR. FAIRTY: I should like to be in that position.

I do submit that the railroad and the motor bus are not really competitive.

THE CHAIRMAN: Do you carry that to this point, Mr. Fairty, that if you had a local system of transportation, such as motor trucks, taking what was described yesterday by the Labour representatives as the cream off the railway traffic in such a way as to cripple the railways, so as to make it impossible for them to continue without direct public assistance in the way of subvention, that that



necessarily ought to be permitted?

MR. FAIRTY: Then, I submit, we would have to fall back on the old legal phrase, balance of convenience.

THE CHAIRMAN: Balance of public convenience?

MR. FAIRTY: Yes.

THE CHAIRMAN: Undoubtedly.

MR. FAIRTY: Whether the carriage of mass quantities of freight long distances was of such importance to this nation that we would have to put the other service out of business. It might be so if that were the fact. But I contend our motor coaches do not take the cream off the railroad's revenue.

THE CHAIRMAN: I suppose you say that your coaches interfere only with passenger traffic, and that that consideration is hardly relevant?

MR. FAIRTY: The Bureau of Economics of the Canadian National Railways claim that at most the railroads lose \$4,000,000 of passenger revenue to the coaches per year, which is less than five per cent of their gross revenue. Of that they concede themselves that the large bulk of it would never go back to the railroads anyway. The T.T.C. brief presented to this Commission indicated that at least 75 or 80 per cent of it was absolutely new business, which the railroads never got, never could get, and never would get. That leaves less than \$1,000,000 of which the railroads are deprived. And I submit they would not get even that, because a great many people would at once buy second-hand automobiles, or travel in the automobiles of their friends, or club together and travel by that form of transportation. So the railroads would get but a very very slight amount of that million dollars, although it may be they would get some



of it. Let me stress the other side of the picture, for I submit there is another side. I am not a steam railroad man, but I understand the railroads for years have claimed that they have furnished certain local services more because they are public carriers and it is in the public interest than with any idea of making money. I understand that certain local passenger services of the railroads are unprofitable today.

SIR JOSEPH FLAVELLE: Suburban service?

MR. FAIRTY: Yes, and that kind of thing. I submit that this new form of transportation gives them an opportunity to abandon some of these local passenger hauls, and it gives them a chance also to abandon a certain amount of rolling stock. Further, this new form of transportation stimulates the travel habit, which helps the railroads. Furthermore, to a slight extent -- and only to a slight extent I concede -- the motor coach acts as a feeder to the railroads. I think if you take all these things into consideration the balance about splits even. I am confident that the broadminded railroad man will concede that the motor coach does very little damage to the revenues of the railroads, and I have not seen any steam railroad figures anywhere to the contrary.

Perhaps I am delaying your Commission unnecessarily. I do not want to read this brief in detail, I rather hope the Commission will do so.

THE CHAIRMAN: We will read it, Mr. Fairty.

MR. FAIRTY: We concede that public regulation of highway travel is necessary and right. On November 20th, 1931, the Association of Railway Executives of the United

States met in New York and formulated the following statement of the ground which they considered the public regulation of highway transport should cover:

As regards commercial highway transportation, by bus or truck, legislation should cover

A. Extending jurisdiction of the regulatory authorities over commerce carried by such agencies.

I may say that in the United States they have a condition which does not prevail here. There is very little interprovincial or foreign coach travel in Ontario or in practically any of the other provinces so far as I know; but in the United States, interstate as opposed to intrastate bus operation has become very substantial, and real intrastate bus operation sometimes has been converted by the operators themselves into interstate bus operation by just going over the boundary line a mile or less, and thus escaping the jurisdiction of either state. That is why the Interstate Commerce Commission thinks it is necessary to bring into force Federal regulation of motor buses, motor trucks and other forms of highway transportation. But we have no such problem in Canada.

B. Certificates of public convenience and necessity after proper showing.

C. Proper protective requirements for financial responsibility and surety bonds or insurance.

D. Adequate requirements for just and reasonable rates, both maximum and minimum, with provision for publication thereof and adherence thereto, and proper inhibition against undue and unjust discrimination.

E. Proper service requirements.

F. Adequate authority for rail carriers to operate such facilities, without discrimination in favour of other transportation agencies in the same field.

G. Adequate provision for privilege or license fee imposed on all motor vehicles for hire or profit using highways, so as properly to participate in construction and maintenance costs of highways.

We subscribe to all those requirements, and we say they are in force in Ontario. I want especially to deal with F, which might be misconstrued:

Adequate authority for rail carriers to operate such facilities, without discrimination in favour of other transportation agencies in the same field.

In other words, the charters of the railroads should be amended so as to permit them, if they wish, to engage in motor coach and motor truck business. That situation has cropped up in England where the railways found that their charters forbade them to go into that field. They went to parliament and endeavoured to have their charters amended, and for a while they were refused. Now they have obtained those powers and have gone into the business by investing in existing bus and truck companies, to a certain extent at any rate.

Now, it does not by any means follow that the railways can come in and be furnished with the right to compete with the existing bus and coach lines in Ontario, I submit. They can do just what the Toronto Transportation Commission did when they went into the motor coach business. The Toronto Transportation Commission had to take things as they found them, they had to acquire permits where permits were already in existence. I submit that any entry into the new field by the railroads should be on exactly the same terms as that other public body had to conform to when they went into it -- buy out the existing permits or make some other arrangement with those already in the business, unless they are entering an entirely new field.

I will now deal with the facts of regulation in Ontario. I am not stressing this point, because I do not understand there has been any serious criticism that



motor coach regulation in Ontario is not adequate. The regulations are classified as follows:

As to Service -- Tolls, timetables, number of passengers, carrying capacity, number of standees, manner of carrying luggage, continuity of service, reporting of accidents, public liability insurance.

THE CHAIRMAN: Mr. Fairty, unless there is something special that you want to refer to in connection with regulation, I do not think it will be necessary for you to go over the whole ground generally. There is one point I am concerned with for the moment that you can answer in a sentence, and that is with regard to insurance. Is it a general regulation applying to all motor vehicles alike?

- MR. FAIRTY: No, there is a special regulation in the Motor Vehicles Act, but this is in the Public Vehicle Act, section 24 of which provides:

Every public vehicle shall have placed thereon such amount of insurance, and in a company approved by the Department, as the Department may deem sufficient to safeguard claims of passengers, and owners of express freight in case of collision, fire or other form of accident.

COMMISSIONER MURRAY: Is there protection to the public in case of accident?

Mr. FAIRTY: That covers it.

THE CHAIRMAN: I do not think it does.

COMMISSIONER MURRAY: That protects those who use the transportation.

THE CHAIRMAN: Is there not some general regulation with regard to motor vehicles?

MR. FAIRTY: No, there is not compulsory insurance in Ontario applicable to all motor vehicles.

THE CHAIRMAN: That section does not protect the pedestrian or the owner of the automobile who is run down.

SIR JOSEPH FLAVELLE: Mr. Fairty, is there a regulation that if a driver of any kind of automobile has an accident he cannot get a renewal of his license?

MR. FAIRTY: Unless he furnishes proof of financial responsibility. In practice I imagine that would protect the public. Of course, it is always open to this objection: Every dog is entitled to one bite, and every motor vehicle driver is entitled to one accident. There is that objection, but on the other hand the Massachusetts scheme has objections too.

COMMISSIONER LEMAN: Is there not compulsory insurance for common carriers?

MR. FAIRTY: Frankly, I thought there was. So far as I can see it only covers passengers.

COMMISSIONER MURRAY: Section 11 provides:

All owners of public vehicles shall take out and keep in force in some company authorized to do a motor vehicle indemnity insurance or bonding business in the province, a policy, policies or bond, running to the people of the province of Ontario in the amount as set out in schedule A. And such policy, policies or bond shall be deposited with the department within ten days of the taking out of same.

MR. FAIRTY: As a matter of fact I know some of the companies do carry insurance.

THE CHAIRMAN: I suppose you all do in fact.

MR. FAIRTY: Yes. Now, dealing with the question of taxation in Ontario, the motor coach is subject to three main taxes. There are other taxes which are not used for the construction and maintenance of roads, and I will not refer to them. The gasoline tax is five cents a gallon; the road tax is one-twentieth of a cent per seat mile on provincial highways, and one-thirtieth of a cent on county roads; the registration fee varies according to the weight

of the vehicle, and for the average twenty-nine passenger coach in use, weighing approximately eight tons, is \$96 in 1932; it was \$72 in 1931.

THE CHAIRMAN: That is the annual fee?

MR. FAIRTY: Yes. These figures were presented yesterday and I do not want to stress them now.

The question of the adequacy of the taxes paid by the motor coach in Ontario cannot, I think, be categorically determined by any definite formula, and must in the last analysis remain a matter of individual judgment. But I submit there is substantial cognate data which can be brought before your Commission. First of all, who should pay the taxes? I submit that this burden should be borne by three classes: (1) the community generally, because the community benefits unmistakably from the provision of highways; (2) those specially benefited, that is, abutting owners and municipalities.

THE CHAIRMAN: You mean highway costs, not taxes?

MR. FAIRTY: Yes. I am a bit of a fanatic on this, but I do feel that not enough attention has been given to the question of the contribution towards highway costs by those specially benefited. I know that the Local Improvement Act in Ontario, and especially in Toronto, has been shamefully abused. Nevertheless there are certain people who should pay what are commonly called betterment taxes in the United States, and in Ontario special assessments.

THE CHAIRMAN: Do you propose to tax farms along the route?

MR. FAIRTY: To a certain extent I would. That perhaps would not be in the realm of practical politics; but where there is a very substantial private benefit from

public works it seems to me not unfair that the wowner should pay a slight amount at any rate towards such public works.

COMMISSIONER LEMAN: But you make a distinction between theoretical considerations and practical ones?

MR. FAIRTY: I do not know how far they can be turned into practice.

SIR JOSEPH FLAVELLE: Of course, Mr. Fairty, you will admit this, I think. The roads, as you very properly observed, are necessary for the convenience of the community, the people must have access, and therefore they should pay something for that convenience; but those who take advantage of the roads for commercial gain are in a different position. Leaving for the moment the railways out of consideration and looking at the transportation question broadly, don't you think it would be only fair that those who make use of the roads for gainful purposes should pay a part of the cost?

MR. FAIRTY: Yes.

SIR JOSEPH FLAVELLE: It is only a question of how much.

MR. FAIRTY: Yes. I concede that the motor coach should pay something for its right to use the public highways for its own purposes.

THE CHAIRMAN: You are suggesting that the system of taxation should be remodelled in such a way that the owners of farms along the route should, in addition to the general contribution which every owner of land has to make to the revenues of the municipality, make a special contribution in relation to highways?

MR. FAIRTY: Of course, it is not a new principle. The Ontario Local Improvement Act, applicable in Toronto, makes abutting landowners pay the full cost of the pavement except the street intersections.

THE CHAIRMAN: But is it not a condition precedent that the owners should ask for the improvement?

MR. FAIRTY: No, the city can force the improvements on them, and some are by no means improvements. I think the whole act should be remodelled.

SIR JOSEPH FLAVELLE: Do you think it sound public policy, having regard to this broad question of transportation, that municipalities and governments should be required to segregate the increased expenditures that grow out of increased traffic from the general taxes, for the purpose of putting the highways on a sound financial basis; and that if you collect special revenues to cover those expenditures, they should be applied over a course of years to the amortization of the property and its proper maintenance?

MR. FAIRTY: Of course, that is a fairly broad question of public policy, Sir Joseph, and I do not think I would be qualified to deal with it unless I were a member of the provincial government. In my view there is a great deal to be said for the practice. At the present time I understand that the highway revenues of this province all go into the consolidated fund, they are not earmarked at all.

SIR JOSEPH FLAVELLE: You go on piling up a public debt for a convenience which has become commercialized in part, and the expenditures are necessary because of the special means of transportation which has developed, namely,

motor service.

MR. FAIRTY: I do call attention, Sir Joseph, to the fact that there is a substantial divergence of opinion on this point between the railway spokesmen and those, for example, representing the Ontario government. The latter deny the railway figures as to the public road debt, and they claim that the users of the highways more than pay for their cost.

SIR JOSEPH FLAVELLE: That is apparently so from the figures that have been given. But the taxes collected do not go directly to keep healthy the road investment; they simply go into consolidated revenue.

THE CHAIRMAN: The taxation is not earmarked. My impression, Mr. Fairty, is this, that about the middle of the last century there was a vehicle tax in England. There are various grounds on which people are taxed; for instance, at one time the number of windows in a man's house was made the criterion, as were the types of vehicles that he used; that is, the man who had reached the position where he could occupy a house with so many windows and enjoy the luxury of carriages was called upon to contribute so much more to the general revenue. I am not sure that the Ontario government is not proceeding on that principle.

MR. FAIRTY: That may be so.

THE CHAIRMAN: But the owner of a motor vehicle must make a contribution to the public revenue independent of the contribution that he makes to the upkeep of the highways.

COMMISSIONER LEMAN: With respect to the operating of motor coaches for gain, we must be careful not to suggest

taxation on a basis which would shift it perhaps to the shoulders of the people who can least afford to bear it, because after all those who use motor coaches cannot afford private cars.

SIR JOSEPH FLAVELLE: That is, they might have to pay an increased fare to meet the charges.

COMMISSIONER LEMAN: Yes; and they are least able to afford to pay it.

MR. FAIRTY: It may be that a recommendation by this Commission that abutting owners, those specially benefited by the building or surfacing of new highways, should contribute by way of taxation, would not be accepted by the government. Nevertheless if it is a proper suggestion I submit respectfully that the Commission might very well be tempted to make it. I know lately that when Detroit appointed a committee to look into the question of super-highways and also of rapid transit in the city, one of the most important recommendations was that a very substantial proportion of the cost of rapid transit by superhighways should be borne by the properties immediately benefiting.

THE CHAIRMAN: You first find how much the property is benefited by the construction of the highway?

MR. FAIRTY: Yes. I know that some years ago the City Club of New York suggested that new subways should be constructed on a local improvement basis in large part.

THE CHAIRMAN: In the case of compulsory local improvements the basis of taxation I suppose is the increased value of the property.

MR. FAIRTY: The trouble is that at the present time the assessment commissioner in Toronto has not, I

submit, given sufficient attention to the question whether a property is really benefited, and he applies the act in an utterly mechanical manner, sometimes working a very grievous injustice to individuals. Mr. W. A. McLean, former Deputy Minister of Highways for Ontario, stated in a paper read by him before the Engineering Institute of Canada at Toronto on the fifth instant:

The writer has frequently asked real estate brokers their opinion of the effect of paved roads on farm land values. Replies have varied, but all have agreed that in an agricultural district a 100-acre farm on a paved road will bring at least \$1,000 more than will a similar farm not so favourably situated, while sales can be much more readily effected. That is, assuming eight farms to the mile, there is an increase of at least \$8,000 per mile, not including nearby farms a mile or two distant, the value of which is proportionately benefited.

The principle is also adopted in Ontario in the act which provides that the city of Toronto, for example, shall contribute to all York County roads. I think probably Ottawa contributes to Carleton County roads.

THE CHAIRMAN: What would you do with a farm, the rental value of which just barely pays the taxation already on it? I have been told of a great many instances of that kind in this county and in the adjoining counties.

MR. FAIRTY: I believe that is true, and I believe also that increased assessment is driving many farmers off the land.

THE CHAIRMAN: Of course, it may be that the land is assessed too high.

MR. FAIRTY: It is a fault in administration, I think.

SIR JOSEPH FLAVELLE: You will not forget, Mr. Fairty, that a great many farmers are already paying for improved highways in front of their own property. The

township taxes for expenditures on roads have grown to such proportions that they are from two to five times greater than they were ten or twelve years ago. There is a very strong feeling over the increase in farm taxes.

MR. FAIRTY: There is a feature that I was not aware of. I was thinking more of the main provincial highways.

SIR JOSEPH FLAVELLE: You are certainly optimistic in thinking that the rural communities would welcome such a thing.

MR. FAIRTY: Of course, everybody concedes that the user should pay a very substantial proportion of the cost of the highway. The British Royal Commission has been referred to several times. In that connection I would point out that the horse-drawn vehicle and the pedestrian still use the highway.

THE CHAIRMAN: Not in this county. If the pedestrian does it is at the peril of his life !

MR. FAIRTY: As to the question, what are highway costs, I have a statement confined solely to Ontario which is very similar in character to that presented yesterday. It will be found at page 18 of the brief. Taking the 6,185 miles of improved surfaced highways at a cost of \$142,719,000, and deducting \$3,000 per mile, it brings the total cost to \$124,164,000. Adding interest at five per cent, \$6,208,200, depreciation at three per cent, \$3,724,920-- I think Colonel Vien, if I may venture to say so, was a little in error in regard to the percentage, which is on the basis, I understand, of twenty-one years. I believe that the basis mentioned by Mr. R.M. Smith, Deputy Minister,

would be fair, thirty-three years; but they are playing safe and making it twenty-one years.

COMMISSIONER LEMAN: I think he corrected the statemenet.

MR. FAIRTY: I did not so understand.

SIR JOSEPH FLAVELLE: I think the difficulty arises because the sums are not definitely earmarked and there is no opportunity for that compound interest to work.

MR. FAIRTY: Taking the interest and depreciation, the figures for which I have already given, and the actual maintenance on main and county roads in Ontario in 1930 at \$4,599,821, we find that the total carrying charges on hard surfaced roads in this province in 1930 were \$14,532,941. The total revenue received from motor vehicle taxation for 1930 in Ontario was \$16,323,033. From this it is apparent that the motor vehicle is paying not only its proper share, but more than the full cost of surfacing the highways of this province. I should like to call the attention of the Commission to the fact that only one half of this mileage of 6,185 is used by motor coaches.

COMMISSIONER LEMAN: Do you mean the other roads are used by private cars only?

MR. FAIRTY: There are no motor coach vehicle permits on these other roads. We pay per vehicle an annual tax of \$822.46. The tax paid by the average motor truck is \$272, and the average private passenger car paid \$28. In the United States during that year, 1930, private cars paid approximately the same tax as in Ontario -- \$27.78.

SIR JOSEPH FLAVELLE: How does the taxation paid by the common carrier truck compare with your \$822?

MR. FAIRTY: Approximately one-third.

SIR JOSEPH FLAVELLE: But the \$272 covers all trucks. Has not the common carrier to pay a special charge over and above the owner of a private truck?

MR. FAIRTY: He has no city taxes, of course, but he pays the gasoline tax.

SIR JOSEPH FLAVELLE: Is he actually taxed less than the operator of the passenger coach?

MR. FAIRTY: Yes, approximately one-third of the motor coach taxation.

SIR JOSEPH FLAVELLE: You say the tax paid by the average motor truck in Canada in 1930 was \$272. But I suppose there was a special tax for common carriers.

MR. FAIRTY: No. They pay the gasoline tax and also the vehicle tax, but they do not pay any city tax or anything analogous to it. Our city tax amounts to \$466.

SIR JOSEPH FLAVELLE: A tonnage tax would be a corresponding tax.

MR. FAIRTY: Yes. There is no such tax I am told.

SIR JOSEPH FLAVELLE: You have the carrying of dead tonnage for commercial gain, and you have the carrying of passengers for commercial gain. You pay a tax on each seat whether it is occupied or not. Would there be equity in a tonnage tax?

MR. FAIRTY: I am not a truck man, I should not like to commit myself on that.

SIR JOSEPH FLAVELLE: The great trucks that pass over the highways pay \$272 against your \$822.

MR. FAIRTY: Yes; and in the United States the

motor coach pays \$677.

SIR JOSEPH FLAVELLE: What is the truck tax in the United States?

MR. FAIRTY: I will ask Mr. Gray to deal with that question, Sir Joseph.

MR. GRAY: In some states they impose a ton-mile tax, and in some of the provinces of Canada a ton-mile tax is imposed.

THE CHAIRMAN: In Quebec I am told.

MR. GRAY: In Quebec as a matter of fact it is a ton-mile tax on both buses and trucks.

THE CHAIRMAN: But it is not the tonnage of the freight alone, it is the total weight of the vehicle and its contents, is it not?

MR. GRAY: Yes, the gross weight. In Ontario there is no ton-mile tax.

MR. FAIRTY: It is interesting to make a comparison of the taxes paid by motor coaches in Ontario with those paid by the steam railroads on their percentage of operating revenue. On this basis the Canadian Pacific Railway pays \$3.64 per cent, and the Canadian National Railways 1.88 per cent; that is, all taxes.

COMMISSIONER LOREE: That is the basis of assessment?

MR. FAIRTY: It is on the percentage of operating revenue.

THE CHAIRMAN: The taxes are levied in the various provinces at various rates. This brief does not give the principle at all. What is the principle of the taxation of railways in Ontario, for example?

MR. FAIRTY: I think they just pay on the assessment. Under the Assessment Act there is a special provision.

THE CHAIRMAN: On the valuation of their physical property. They pay a certain rate on the whole property.

MR. FAIRTY: Yes.

COMMISSIONER LEMAN: Even on the railway line.

MR. FAIRTY: Yes.

THE CHAIRMAN: It is not a provincial tax, it is a municipal tax.

MR. FAIRTY: Yes.

SIR JOSEPH FLAVELLE: In Saskatchewan it is collected by the province.

MR. FAIRTY: I do not think they pay a provincial tax in Ontario.

THE CHAIRMAN: I think in British Columbia it is a provincial tax too.

MR. FAIRTY: I admit that this is only a rule-of-thumb comparison, I do not say it is any proper basis, but I am giving it for what it is worth. This is on the percentage of investment:

C.P.R.(all taxes).....	1.01%
C.N.R.(all taxes).....	.23%
Ontario Motor Coach (highway taxes only).....	5.76%

In this connection I find it difficult to speak with moderation of the argument of certain railroad men that because they claim it costs them 15 per cent of their gross revenues to maintain their right-of-way, therefore competition should be equalized by charging the highway carrier 15 per cent of his gross revenues to maintain the highways. It ignores the obvious fact that the railroads own completely their right-of-way and use it exclusively; whereas we use less than

one per cent of the highway and do not own it at all.

SIR JOSEPH FLAVELLE: You are rather fortunate that you do not own it, because you do not have to pay the fixed charges to carry it.

MR. FAIRTY: I submit that we pay enough fixed charges. But I think the fundamental fallacy of that objection is that there is no necessary analogy at all between the two matters from the economic standpoint.

SIR JOSEPH FLAVELLE: But do you see, Mr. Fairty, what we are entitled to secure from you and other witnesses is the point of view of the equitable relationship between a public carrier who provides his own highway and another public carrier who has the advantage of using the highway provided for general purposes. Now, what is the equitable relationship between them? You believe, sincerely evidently, that the amount of taxes now collected in this province from motor coach operators is sufficiently onerous that it is more than equitable in relation to the railways having provided their own right-of-way?

MR. FAIRTY: Is that quite true? Was not what Colonel Vien said yesterday correct: Can it be said that a utility which has been subsidized by public subvention to the extent of two billion dollars has provided its own private right-of-way?

SIR JOSEPH FLAVELLE: But what the Colonel missed yesterday was this: We would not have had any roads in the municipalities in the pioneer days if provision had not been made whereby they could be financed.

MR. FAIRTY: The steam roads were financed too.

SIR JOSEPH FLAVELLE: You could not have had all the subsequent activities in the community if there had not

been the antecedent opening up of the new country, which was only possible by means of capital and the provision of land grants. The steps taken may not always have been wise, but they were directed towards the opening up of otherwise unprofitable and dead territory.

MR. FAIRTY: I am not criticizing the public policy which gave every other quarter section to the Canadian Pacific Railway. I think it was a farseeing policy. But I do say it is not quite fair under those circumstances to suggest that the railroadshave themselves completely furnished their own private right-of-way; they have been substantially helped by the public in so doing.

SIR JOSEPH FLAVELLE: They show that in their statement.

MR. FAIRTY: We are using a right-of-way which has been substantially provided by the public, so we are in the same stall, I submit.

COMMISSIONER LOREE: How are the figures of comparison of investment arrived at?

MR. FAIRTY: As far as the Ontario Association of Motor Coach operators are concerned the capitalization was taken at \$4,409,688.48, the taxation at \$254,140.73.

COMMISSIONER LOREE: How about the railroads?

MR. FAIRTY: Mr. Gray could speak as to those. I do not know where he obtained his figures.

MR. GRAY: They were taken from figures presented by Mr. Beatty for the C.P.R. and by Sir Henry Thornton for the C.N.R.

COMMISSION LEMAN: The total capitalization do you mean?

MR. GRAY: Yes.

COMMISSIONER WEBSTER: Do you remember the amounts?

MR. FAIRTY: Canadian Pacific Railway taxes
\$7,700,000.

COMMISSIONER MURRAY: On a property investment of?

MR. FAIRTY: On a property investment of \$762,978,970.

THE CHAIRMAN: Operating revenue?

MR. FAIRTY: \$211,635,660.97. Canadian National
Railways: Taxes \$4,677,000; operating revenue
\$248,222,476.03; property investment \$2,038,398,432.

COMMISSIONER LOREE: Of course, that represents a
lot of unpaid interest and so forth.

MR. FAIRTY: It represents unpaid interest, yearly
deficits, and all that kind of thing.

COMMISSIONER LOREE: You could not call that property
investment in the sense of value for assessment.

MR. FAIRTY: I understand that has been a matter of
public controversy for some time.

COMMISSIONER LOREE: I am interested in this. In
the United States for the thirty years from 1900 to 1930
there was an increase of 148 per cent in property invest-
ment and an increase of 806 per cent in taxes. The taxes
there ran 3 and 4 per cent on the property investment. I am
wondering how the figures would look here if you simply took
property investment as all that the taxes were levied on.

MR. FAIRTY: I am unable to speak as to that.

My next point is that motor coach operation does not
add to the cost of highways. With respect to this you have
had the evidence of Mr. MacDonald, of the United States
Bureau of Public Roads, and Mr. R.M. Smith, Deputy Minister

of Highways for the province, probably to some extent. But I would point out that although the Toronto-Hamilton highway, judged by modern standards was constructed on a false basis, the heavy part of the road in the centre and the light part on the outside -- 7-9-7; they had not learned how to do it at that time -- yet it has stood up remarkably well and is still quite adequate. The road that Mr. MacDonald is speaking of in his testimony is, as I understand it, 8-6-8, whereas our standard road in Ontario is 8-10-8. So our roads are more substantially built even than the roads mentioned by Mr. MacDonald in his testimony.

COMMISSIONER MURRAY: Ten inches at the outside?

MR. FAIRTY: Yes. Like Colonel Vien, I am puzzled to know why the railroads in their own interest are asking for increased taxation of the motor coach, for if they were to succeed in driving the motor coach off the highway, I think I have made it fairly clear that their revenues would benefit only slightly. I imagine that this gain would be more than offset by the public annoyance and irritation which such a policy would produce. But if the motor coach is here to stay -- and certainly our members have testified the sincerity of their belief by their investments--the railroads ultimately will have to embark in the business or cooperate with those who have. If so, I think the railroads' present position is rather shortsighted, particularly when the corollary of their position is the lessening of taxation on the private automobile--their real foe.

I do not need to deal with the question of subsidies. That is only in answer to the suggestion made, I submit, by shortsighted advocates of the steam railroads'

position.

I am bound to say that the problems confronting the steam railroads of Canada today are far too serious and far too intimate in their relationship to the national credit and prosperity to be approached by any thoughtful Canadian in other than a judicial and sympathetic spirit. I have no doubt that the first-hand and exhaustive information gained by your Commission will lead to such results as will ensure the balancing of the railroad budgets. There has been over-building of our railroads, there has been duplication on a large scale; that is patent to all; but the fault, I think, has been that of a system rather than that of individuals, and doubtless the recommendations to be made by your Commission will lead to the necessary remedial measures being applied. I think such remedial measures should be applied, no matter what political repercussions may ensue, so that the railroads will be put in a position to balance their own budgets and clean their own house. But I submit that it is the primary duty of the railroads not to find fault with others, not to suggest taxation which, no matter what they may say about it, is obviously directed to the driving off the highway of the only form of road transportation that a great many poor people of Ontario can afford.

Therefore I submit that motor coach taxation in Ontario is adequate, and that any suggestion for its increase would not benefit the railroads and would be a serious detriment to a great many users of Ontario's highways.

COMMISSIONER LOREE: Mr. Fairty, we have listened to a great deal of testimony in each of the provinces on the

motor bus, and I have been very much disappointed in the line of argument and in the data that has been placed before the Commission.

I think you are entirely correct in saying that the depletion of the passenger traffic of the railroads by the motor bus has been negligible. Our own information is that we have lost about 4 per cent of our passenger mileage to the motor bus. I have never taken any action looking to a contest between the railroads and the motor bus; I see no reason for it. We owned some motor buses at one time, but we never could make them pay, and we sold them out. We also owned some trolley lines; they could not be made to pay, and we sold them out. I feel it is a mistake for the motor bus industry to accept responsibility for having destroyed the interurban trolley. I think the interurban trolley was destroyed by the wage scale and the inability to get paying rates.

Now, there are two things with regard to the operation of motor buses that give me great concern. To a certain extent the public is depending on them for transportation. I do not think that in a broad sense motor buses are on a sound financial basis. Nine-tenths of the bus lines running out of New York do not pay. I venture to say that ten years from now there will not be eighty-five per cent of the present bus line mileage that is running in the states today. It does not seem to be a vehicle that can be made self-sustaining. I go in and out of New York in the summer and pass coach after coach going to St. Louis, Detroit, Chicago, Buffalo, Allentown, Scranton, or some other place, with just a small number of people on board. If you go to a

bank in Scranton and offer to take off its hands one of those lines that they have financed they will wish you God-speed. The cessation of motor bus operation is going to leave the people without transportation facilities, and that I think is a serious thing to look forward to.

The second thing that appals me is the condition of the highways as a channel of travel. I was on Highway 25 in the state of New Jersey not long ago with a gentleman in my car. When I was leaving his residence he said, "How are you going home?" I replied, "I am going home on 25." He exclaimed, "For God's sake don't go that way! We kill a man a day on Highway 25. Go up on the old toll road." So I went up on the old toll road to please him. We killed 40,500 people in the United States last year, 1931, through motor vehicle operation. The damages awarded in the courts are becoming appalling. Only last week I increased the insurance on my own cars from \$100,000 to \$200,000, just because I look forward to the possibility of an accident in which I may be held responsible for great liability. Now, how long are the people going to submit to that hazard? I see women whose husbands advise them when they go shopping never to walk, but take a car and let it draw alongside the curb. They never cross the street.

MR. FAIRTY: The hazards are great, sir, I can see.

COMMISSIONER LOREE: They are going to affect the private car and the motor bus, and still more they are going to affect the motor truck. You can see the storm arising in all parts of the country. You can see it arising in the truck case by the limitation of weight and by prescribing the number of hours that a driver may be on duty.

MR. FAIRTY: So far as accident verdicts are concerned, I am thoroughly convinced, sir, that the time is coming when something analogous to the Workmen's Compensation Act will have to be applied to all motor accidents; they will have to be taken away from juries and put in the hands of a board; apart from the question of liability compensation will be paid. But I would be inclined to agree with you, Mr. Commissioner, as far as some of the long haul runs in the United States are concerned; I do not see what pleasure there can be to drive from New York to Chicago in a motor bus and then go on to the Pacific Coast. I imagine it is a question of money in most cases. I do not know whether those lines are going to pay or not, but I know the Pennsylvania Railroad seem to have considerable confidence in the motor coach because they have a substantial investment in the Greyhound.

COMMISSIONER LOREE: I understand they have \$19,000,000, but I look upon it as a total loss.

COMMISSIONER WEBSTER: I should like you, Mr. Fairty, to be on record in regard to a certain point. We have had representations on a number of occasions from labour representatives expressing their horror and detestation of any monopolistic organization of the railways of Canada. Apparently your organization is monopolistic. Have the labour people in Ontario ever expressed, publicly or privately, their horror and detestation of this growing evil, or have you been attacked by newspapers or political agitators?

MR. FAIRTY: No, we have no trouble of that sort.

COMMISSIONER WEBSTER: Is there general approval of

your system, although it is a monopoly run privately?

MR. FAIRTY: It is practically run privately, and there has been general approval. I think I can say that beyond question.

COMMISSIONER WEBSTER: I just want to have that opinion on record.

MR. FAIRTY: I think it is a natural monopoly.

THE CHAIRMAN: It is the policy of the Ontario Legislature.

MR. FAIRTY: Yes, it is.

COMMISSIONER WEBSTER: On your system do you give free passes to members of parliament, to your officers and to the families of your employees? Is it a matter of general distribution?

MR. FAIRTY: We do not. Our pass system is kept rigidly under control. We give passes to no members of parliament, to no members of employees families. I would not like to ask for a pass for my own wife on Gray Coach Lines.

COMMISSIONER WEBSTER: That is interesting. Have you organized a pension system for your employees?

MR. FAIRTY: We have not, but I think it should be done.

COMMISSIONER WEBSTER: That is all, thank you.

THE CHAIRMAN: Mr. McIntosh.

MR. CAMERON R. McINTOSH (Member of Parliament for North Battleford): Mr. Chairman and gentlemen, when your Secretary noticed in Hansard a few days ago my question to the Prime Minister as to whether your Commission would report to Parliament and whether it would hold any further public sittings, he very kindly advised me of your meeting to-day. During your western trip you held a meeting in Regina -- Regina is a long distance from North Battleford -- and since your Board did not have an opportunity of sitting in my section of Saskatchewan, I am taking advantage of the present occasion to bring to your attention what I think is the opinion of the large majority of my constituents in connection with certain angles of the transportation question in North Western Saskatchewan.

I am directly concerned with the North Battleford territory. It is a very extensive area and an important section of the northern portion of the province of Saskatchewan. We are over one hundred miles from Prince Albert, practically the same distance from Saskatoon and more than two hundred and fifty miles from Edmonton. North Battleford itself is an important business centre of 6,000 people and has attained that growth within the short period of fifteen years. In the territory back of North Battleford there is a population of about 53,708 according to the last census, but there are still more people there to-day. North Battleford's trading population in other directions will easily total another 50,000 or more.

THE CHAIRMAN: What would be the area occupied by that population of 53,000?

MR. McINTOSH: I imagine it would exceed 54,600

square miles. The bulk of the population is in the southern part of the riding, which is about 500 miles long by over 100 miles wide.

It is one of the newly settled areas, and until 1929 we had only one railway in there, the Canadian National. We are on the old mainline of the Canadian Northern. The building of the Grand Trunk Pacific through-line from Saskatoon to Edmonton duplicated the C.P.R. mileage westward and very seriously affected this area to the north in the way of railway services and accommodation.

SIR JOSEPH FLAVELLE: That is, through trains?

MR. McINTOSH: Yes, Sir Joseph. We lost a lot of business at North Battleford, and we also lost to a very considerable extent railway accommodation to which we were entitled. If there are any operating deficits to-day on the Canadian National Railways or on the Canadian Pacific Railway, it may be taken for granted that the North Battleford area is not responsible for any such deficits. I feel quite certain that every train in the district pays, because it is generally admitted to-day that the North Battleford territory is one of the best in Western Canada. After you leave Saskatoon and cross the North Saskatchewan and head northwesterly I think you are in a territory that is now, and will become increasingly so, one of the great developing and most prosperous sections of Western Canada.

COMMISSIONER WEBSTER: Is there any mixed farming engaged in?

MR. McINTOSH: Yes, we went in for mixed farming over fifteen years ago, in 1913. Then the business men of North Battleford organized a local joint stock company

to help farmers buy stock. In that way we laid the foundation for mixed farming in that area. To-day we are organizing stockyards at North Battleford to take care of stock shipments.

In connection with your railway problem, there is a local angle to it that I think might very well be brought to your attention. I have before me a memorandum from the North Battleford Board of Trade in connection with the two railways in that territory. Perhaps I can give you a better idea of the railway situation there by means of this large wall-map. The C.N.R. went in there in the early days and built its mainline through North Battleford to Edmonton; that constituted our mainline facilities. Later another Canadian National line was built from Prince Albert to North Battleford. Now we have a third National line with a big loop as an offshoot running northwesterly to Edmonton. Construction has been completed to St. Walburg, about a hundred miles northwest of North Battleford. From that point the line curves towards Edmonton. There remains a gap of approximately one hundred and four miles, twenty-five miles of which is graded on the Edmonton side of the Beaver River and forty-four on the other -- the North Battleford side. The remaining thirty-five miles have yet to be graded. All along this line there is a large population engaged in mixed farming.

SIR JOSEPH FLAVILLE: When was that grading done?

MR. MCINTOSH: Last summer, Sir Joseph. We have been trying to get the steel laid. I think if this work could have been done last fall it would have been an effectual unemployment measure. Whether or not this work

will be undertaken this year I do not know. If the line is completed by 1932 I think it will be within schedule time. That will give us another mainline to Edmonton. There is another branch that starts to the south between this line and the North Saskatchewan River and this, too, is heading for Edmonton. So we have there two big loops, and or one of them, as I have said, there is a gap of over one hundred miles.

COMMISSIONER WEBSTER: How far are they apart?

MR. McINTOSH: The line farthest north is fifty or sixty miles from the other line. The latter is a maximum figure. The southern line runs between the northern line and the river. There is forty miles to be built to complete this line. At the present time one part of the line runs from Edmonton and the other part from North Battleford, with a gap of forty miles to build. As I have said, those are all Canadian National Railway lines.

In 1929 the people of the district and the business men of North Battleford desired the Canadian Pacific Railway to come into the territory of "The Battlefords". The question arose, would they be allowed to do so. As the Federal member for the district, I took the stand that the Canadian Pacific should be allowed into that extensive territory, that it was not a question of politics but simply a question of affording proper railway facilities to the farmers and business people to aid them in the development of that immense area of about 54,600 square miles.

In order, Mr. Chairman, that your Commission may appreciate the extent of this territory I may add that the

area of England is only 59,000 square miles, that of Prince Edward Island only 21,000 square miles, that of New Brunswick only 27,000 square miles, that of Nova Scotia only 23,000 square miles, that of Japan 150,000 square miles, and that of Scotland 30,000 square miles. So we have practically an empire of magnificent country back of North Battleford.

The Canadian Pacific decided to come in, and a conflict arose between it and the Canadian National. In this connection I think it is important that I should direct the attention of the Commission to the fact that at the present time there is a Canadian Pacific line running from Saskatoon towards North Battleford to a point about twenty miles east of North Battleford and practically up to the southern bank of the North Saskatchewan River. The Canadian Pacific sought a charter to enable them to bridge the river and build into North Battleford and thence north. The Canadian National management objected, and their objection resulted in the two roads working out an agreement with each other.

Instead of the Canadian Pacific carrying out their original plan, which would have given them practically an air line from Saskatoon to North Battleford, they were authorized as agreed upon to enter North Battleford by making a connection with the Canadian National Carruthers' line at Cut Knife, and given running rights over that line -- on Canadian National steel -- into North Battleford.

Another problem arising out of the C.P.R. entry into "The North" was also settled in 1929. From North Battleford the Canadian Pacific secured running rights over the Canadian National from North Battleford to Hamlin,

and thence over a joint line they reached Medstead, whence they were allowed to build farther north to Meadow Lake -- over sixty miles distant. That line will be ready for operation this year.

A similar arrangement was carried out from Prince Albert. The Canadian Pacific was allowed running rights over the Canadian National to Debden, and from that point they built westward through that northern territory to meet the line from the south out of Medstead to Meadow Lake.

Therefore, at the present time, we have the Canadian Pacific enjoying running and joint rights from North Battleford to Medstead, a distance of fifty miles; and from Medstead the C.P.R. runs northeasterly to a point on the Prince Albert -Meadow Lake line and then northwesterly to Meadow Lake. This means they have running rights over the Canadian National from Prince Albert out to a point on the Shellbrook line at Debden, from which point they have their own line to Meadow Lake. The C.P.R. is building west, meeting the C.N.R. line from St. Walburg and Loon Lake, and going on to Lake La Biche.

But these railway developments do not solve the problem of the entry of the Canadian Pacific into North Battleford directly from the point to which they have built south of the North Saskatchewan River. At present the Canadian Pacific enters North Battleford from Saskatoon through Wilkie and Cut Knife, with running rights, as I have already pointed out, over what is known as the Canadian National Railway Carruthers' line, a circuitous route of one hundred and seventy-five miles.

Naturally, the people of that south easterly area and the business men of North Battleford and Battleford are anxious to have more direct connection by means of the Canadian Pacific Railway. At a meeting of the Board of Railway Commissioners in North Battleford on October 8th, 1931, an application was made by the City of North Battleford for the C.P.R. not to be bound by its verbal agreement not to enter North Battleford directly from Saskatoon, that is, for permission to build a bridge over the North Saskatchewan River in order to gain direct access to the city. Under the arrangement with the Canadian National arrived at in 1929, the Canadian Pacific, as I have explained, in conference with the C.N.R. agreed, for the time being, not to build a bridge. But since that time conditions have changed, the Canadian Pacific have developed their railway system in that North Country, the population has increased considerably, and the agricultural production is much greater. Therefore, the people want the Canadian Pacific Railway service to be fully effective, and they feel that they should not be asked to put up with the present round-about facilities forever.

COMMISSIONER LEMAN: Where is that bridge asked for?

M. McIntosh: I will indicate its position on this map. It is right across the river at this point. The Railway Commission dismissed the application on the ground that they had no jurisdiction. The agreement between the two railways, to which I have already referred, entered vitally into the question. True, the Canadian Pacific said they would not build the proposed bridge at that time -- I mean, in 1929 or somewhat later -- but I did not

understand that the Canadian Pacific ever said they would never build a bridge at any time in the future. It was always my understanding that if we got them into North Battleford in the present round-about way, later on we would get them in by the direct route. In view of the decision of the Railway Commission the matter now rests between the two railways. The Board of Trade of North Battleford and the districts north take the stand that if they cannot get that airline from Saskatoon into North Battleford by bridging the North Saskatchewan River, thus affording adequate means of distribution throughout that section between North Battleford and Saskatoon south of the North Saskatchewan, then as a minimum the Canadian Pacific should be granted running rights over the mainline of the Canadian National from Saskatoon to North Battleford. That is the proposition in a nutshell.

Personally, I might say that as the Federal representative of the North Battleford constituency, I am quite willing to agree with the Board of Trade up to that point. I have tried to give your Commission a bird's-eye view of that fine mixed-farming area and its wonderful possibilities: I doubt if they can be equalled in any other part of Western Canada. If the Canadian Pacific are to be able to give the people of that great area adequate service, they must have a real outlet and inlet through North Battleford, because North Battleford is one of the pioneer points through which that immense territory should get a complete distribution service -- Edmonton and Prince Albert are the other two -- the three making up a triangle

of great importance.

For the next year or two, until conditions improve, I am of the opinion that it might be very well for the two roads, if they so desire, to co-operate as suggested on the solution of that problem. But I do not say that that should be a final solution. I think ultimately the Canadian Pacific must bridge the river at the point shown, or farther on at Battleford, and so give us the advantage of their airline to Saskatoon. That would give us full distribution facilities, fundamentally imperative to the proper development of North Battleford and "The North".

COMMISSIONER LEMAN: What is the difficulty of continuing the Canadian Pacific line along the southern bank of the river to Battleford (referring to map)?

MR. McINTOSH: If the Canadian Pacific would bring their line along the southern part of the river and cross into North Battleford at "The Battlefords" it would be perfectly satisfactory to the North Battleford business men and to the whole country north, but whether the Canadian Pacific would do that or not I do not know. Personally, I would like to see that done.

COMMISSIONER LEMAN: What is the class of country through there?

MR. McINTOSH: The railway feels that the country is not very good along there. If the Canadian Pacific would not do that, however, they should be allowed to build a bridge across the river near Ruddell or Denholm as I mentioned, and so cross into North Battleford. This would give us the distribution facilities necessary for the southeastern part of that territory. The round-about

way in which the Canadian Pacific now comes into North Battleford gives us distribution in the southwestern area. That is really the reason why the Canadian Pacific was induced to enter North Battleford in that way. In that respect our main problem of distribution in that direction from North Battleford has been solved, but it is not a sufficiently direct route. The problem to-day is: If we cannot get a bridge built at some satisfactory point and the line continued into North Battleford, what are we going to do? Until conditions improve and the Canadian Pacific are ready to take action, the Board of Trade say: "Give them running rights over the Canadian National mainline from Saskatoon."

COMMISSIONER LEMAN: From Saskatoon, say, to Oban you have two parallel lines. Is that duplication necessary?

MR. McINTOSH: Is this line built?

COMMISSIONER LEMAN: Apparently it is. From Saskatoon to Oban there is duplication.

MR. McINTOSH: Yes. There is duplication between C.N.R. (the old G.T.P. through-line to Edmonton) and the C.P.R. mainline west, as I have stated. All points north have suffered from that duplication ever since the Grand Trunk Pacific was built. The G.T.P. is south of North Battleford and the North Saskatchewan River. It should not have been built when it was. As a through line it has had serious effects on mainline traffic through North Battleford east and west. Traffic rightly belonging to the north mainline both ways has been directed to it thus unfairly damaging North Battleford as a transportation centre. This grievance should be rectified and the north

mainline given the tourist and through business to which it is and has been unquestionably entitled since it was the first time constructed. I touched on that point in my opening remarks.

COMMISSIONER LEMAN: By arranging running rights could that southerly duplication be avoided?

Mr. McINTOSH: I think it could and should, communities all along those lines notwithstanding.

SIR JOSEPH FLAVELLE: You recognize that with the building of branch lines there has been a duplication of service. Is it not the natural thing to endeavour to avoid the mistakes of the past?

MR. McINTOSH: Surely.

SIR JOSEPH FLAVELLE: With such a very limited population there must necessarily be a limited tonnage, and are you not really asking for a continuance of the policy which has brought such anxiety and concern to us all with respect to the position of our two great railway systems?

MR. McINTOSH: No, I do not think so, Sir Joseph. If the Canadian Pacific had not entered into the North Battleford territory, the Canadian National would have had to build additional lines. In one season a million bushels of wheat was put into the elevators at one point; that will give you an idea of the productivity of this country. I do not think there is one mile of railway in that territory that has ever shown an operating loss, and I am confident that there is not a mile now under construction but will show an operating profit, for there will always be an increasing tonnage of wheat, coarse grains,

lumber, fish, furs, live stock and dairy products from that territory.

SIR JOSEPH FLAVELLE: You have six thousand people concentrated at one point. How many miles of railway have you in that territory?

MR. McINTOSH: From North Battleford half way to Prince Albert it is sixty-five miles; from North Battleford to Meadow Lake is about one hundred and twenty-five miles; from Meadow Lake eastward towards Prince Albert is another seventy miles; North Battleford to Saskatoon ninety-six miles; from North Battleford westward to Lloydminster is another seventy-five miles. We have also over one hundred miles of road from Turtleford to Speers, fifty miles north; one hundred miles from North Battleford to St. Walburg; over thirty miles from Spruce Lake to Frenchman's Butte, also mileage as mentioned South Westward. That is practically all the railway mileage we have completed, but we have quite a lot under construction.

COMMISSIONER WEBSTER: Will you draw your pencil around the area where the 55,000 people are settled?

MR. McINTOSH: The 55,000 people are in "The North". There is another 55,000 population south westerly and easterly belonging to "The Battlefords' " trading zone. The North Saskatchewan River is the main boundary. I might say that in the last two or three years from 10,000 to 15,000 people have gone into that northern territory from other parts of western Canada. There is not any question about filling up that area. The settlers going in there can readily carve out homes for themselves, and you will never have them on the dole.

COMMISSIONER LEMAN: I know it is a very fertile piece of country.

THE CHAIRMAN: We heard all about that area when we were in Saskatchewan.

MR. McINTOSH: Only generally. Not in particular outline as I have presented it.

SIR JOSEPH FLAVELLE: Ought you not to present your case to the Board of Railway Commissioners? We are dealing with the problem of transportation in its large and broad aspects. Whether or not a bridge should be built across the North Saskatchewan River is something that should be dealt with by an administrative body such as the Board of Railway Commissioners.

MR. McINTOSH: No, Sir Joseph. They heard the case, and decided that they had no jurisdiction. It is purely a railway matter.

SIR JOSEPH FLAVELLE: Taking the broad view, even if it works a hardship in your case, is it not a good thing for the two railway companies to come together and decide what should be done?

MR. McINTOSH: Yes, providing the duplication spoken of is faced and solved.

SIR JOSEPH FLAVELLE: And if by agreement they have come to the conclusion that for the present this bridge should not be built, why should that agreement be disturbed?

MR. McINTOSH: If only for the present I would say it is all right. There is no actual agreement not to bridge the river -- only a gentlemen's understanding. The C.P.R. can bridge the river any time. It would not cause

duplication southward. If the C.P.R. bridged the North Saskatchewan near Ruddell and crossed to the North Battleford side of the river, it could no doubt secure running rights from that point into North Battleford on the mainline of the C.N.R. connecting North Battleford and Saskatoon.

SIR JOSEPH FLAVELLE: We would hope that the two railways would see the wisdom of not trying each to cut off the other.

MR. McINTOSH: That is quite right, especially in an immense productive area like the North Battleford Country.

SIR JOSEPH FLAVELLE: And agreeing as to what is best for the time being.

MR. McINTOSH: I admit, Sir Joseph, that what the North Battleford Board of Trade is asking for -- running rights for the Canadian Pacific from Saskatoon over the mainline of the Canadian National -- may be all right for the present; but I say unhesitatingly that that is not a final solution of the problem. It is only a make-shift solution at best. I contend that North Battleford is entitled to connection with a line almost all south of the river from Saskatoon because that will give us distribution in a big territory asking for same.

SIR JOSEPH FLAVELLE: What do you mean by distribution?

MR. McINTOSH: Wholesale distribution, and also all the other services that go in connection with a linked-up line.

THE CHAIRMAN: You do not know in point of fact

whether that line would pay?

MR. MCINTOSH: I am quite satisfied it would pay. I do not think there is a line in that country that does not pay. In fact I am going to ask for operating figures in connection with every line built in that territory. I pretty well know what those figures will disclose. I have been in North Battleford for twenty years, and that territory has been a gold mine for the C.N.R. We are not asking for something that will not pay. Consequently, I think we are absolutely entitled to the completion of that line into North Battleford. No "running rights" over the C.N.R. mainline into North Battleford will suffice. We desire the C.P.R. to cross the river into North Battleford -- no patched up affair will do. Then we will be in as good a position as are the distributors of Regina or Saskatoon, something -- with the country we have -- we are entitled to.

THE CHAIRMAN: Your population is 6,000?

MR. MCINTOSH: But that only represents the growth of North Battleford in the short period of really about fifteen years. There is an immense country back of us to be opened up. During the war and after it, till 1925, of course we could not get a mile of road built. We were badly handicapped by lack of branch line facilities.

I think I am voicing the feelings of my constituents when I say that they would not like to see a merger of the two roads; they would like to see the removal of the unprofitable operations that we have to-day, the fullest possible co-operation and at the same time ample safeguarding competition that will give the people adequate

service. I believe that is the situation in so far as my riding is concerned.

THE CHAIRMAN: You do not require separate stations, do you?

MR. McINTOSH: No, we are co-operating on the terminal facilities. We shall have to have a fully modern union station soon.

SIR JOSEPH FLAVELLE: Of course, that is natural and necessary at the moment because the Canadian Pacific are running into North Battleford on the Canadian National line.

MR. McINTOSH: But I do not think there is any question that in so far as the terminal facilities of the two roads are concerned there will be anything but the fullest co-operation. The completion of that line from Saskatoon into North Battleford is, I think, vital to the development of the Canadian Pacific system in the north in order to give that territory the railway services to which it is entitled.

SIR JOSEPH FLAVELLE: What is the mileage from Saskatoon to North Battleford by the Canadian National?

MR. McINTOSH: Ninety-six miles.

SIR JOSEPH FLAVELLE: What would be the mileage of the C.P.R. by the competing line south of the river?

MR. McINTOSH: Perhaps a little more.

SIR JOSEPH FLAVELLE: You already have railway facilities.

MR. McINTOSH: North of the river; we have none southeasterly to Saskatoon in direct manner.

SIR JOSEPH FLAVELLE: But you are speaking of Saskatoon. You have a direct line to Saskatoon.

MR. McINTOSH: Yes, "The National."

SIR JOSEPH FLAVELLE: Two lines dividing traffic make it a little more difficult for either of them to make money. That is one of the things we are trying to obviate.

MR. McINTOSH: There would be no dividing of traffic as the C.P.R. has traffic across the river out of Saskatoon. The C.P.R. line is not completed. We desire it completed and hitched up to North Battleford.

SIR JOSEPH FLAVELLE: There is no doubt the C.P.R. secured the right to go there, but it is a case of duplication.

MR. McINTOSH: No. There is no duplication since the river prevents such. Surely, this is not the general view of the Commissioners.

SIR JOSEPH FLAVELLE: I am not speaking in any official sense. It is part of the general problem where the community is desirous of having the second railway so as to get competitive and better services. As a result these competitive services have been established all over this great north west until we have a railway problem of such magnitude that neither parliament nor the railways know what to do with it, and that problem is causing such great anxiety that this Commission has been appointed to deal with it.

MR. McINTOSH: But, Sir Joseph, I do not think that an area in which another line like the C.P.R. will pay should be penalized because in some other area it does not pay on account of duplication as, for example, farther

south between the C.P.R. and C.N.R. mainlines westward. Had the river not been there one line might have been sufficient, but with an immense area on one side of the river and an immense area on the other, I think both Saskatoon and North Battleford are entitled to a through-line on each side of that river. There is no real duplication in that.

THE CHAIRMAN: Why should you not cross at the point you are speaking of and take running rights over the Canadian National up to Battleford?

MR. McINTOSH: As I said, that will be all right in so far as North Battleford and the country back of it is concerned.

THE CHAIRMAN: I understood you to say that this country between Baljennie and Battleford --

MR. McINTOSH: Is not very good. The railways say so.

THE CHAIRMAN: So you do not require the C.P.R. for the sake of that country there?

MR. McINTOSH: According to railway opinion, no.

THE CHAIRMAN: But you say you do need this line from Oban up?

MR. McINTOSH: That is a very, very poor line.

THE CHAIRMAN: No; I understood you to say that you require it on account of the country there.

MR. McINTOSH: There is no service on that Oban line now.

SIR JOSEPH FLAVELL: You mean it has been abandoned?

MR. McINTOSH: Yes, temporarily anyway.

THE CHAIRMAN: That is the line I am talking about.

That is Obar (referring to map). I understood you to say that it is important you should have access to that country, and that you have not access to it now. Or was I wrong about that?

MR. McINTOSH: You are slightly wrong, I was dealing with country farther east and south from the river to Saskatoon. Here is the C.P.R., that is where we want to cross -- there or at Battleford.

THE CHAIRMAN: Do you want this merely to get to Saskatoon, or is it for the sake of this country?

MR. McINTOSH: For this territory through service and distribution.

THE CHAIRMAN: That is the question I am asking you. But you do not want it for this territory up here; you say this territory is not good?

MR. McINTOSH: We are not opposing that.

THE CHAIRMAN: That is not the point. I understood you to say that it is not a good country.

MR. McINTOSH: It is not very good country, the railways say.

THE CHAIRMAN: In other words, you would not want to build a railway line merely for the sake of that country?

MR. McINTOSH: No.

THE CHAIRMAN: So it would serve your own purposes if you crossed the river there and took running rights over the C.N.R.?

MR. McINTOSH: Yes.

COMMISSIONER LOREE: What would be the effect of building from Baljennie over to Charlton?

MR. McINTOSH: If the C.P.R. would do that it would

be all right.

COMMISSIONER LOREE: That would keep you on the south side of the river all the way up.

MR. McINTOSH: Yes. But we want to get access from North Battleford to that southern area and give the C.P.R. system in the north a chance to function in a through and more direct manner. Up to the present they have had very little mileage there, but now they are getting to the point where they will put on full services, and no doubt those lines will become fully developed in the future.

THE CHAIRMAN: Mr. McIntosh, I think we understand your point there so far as that is concerned.

MR. McINTOSH: Thank you, Mr. Chairman.

THE CHAIRMAN: I am inclined to think that this is something that is not strictly before us. It might not be without its use, however, as more or less illustrating the general trend.

MR. McINTOSH: I thought perhaps that as an angle of a very important local railway situation in the west it might be of some service to your Commission when drafting your report.

COMMISSIONER MURRAY: Is steel laid on the C.P.R. line from near Debden to Medstead?

MR. McINTOSH: Yes. That is part of the line right north from North Battleford to Meadow Lake. They go in from Debden on the Meadow Lake line and from North Battleford on North Battleford-Mestead line. It will be operating next spring; only construction trains are running now. The C.P.R. have built in the last few years the lines from Debden to Meadow Lake and from Medstead to Meadow Lake also a line from near Hamlin to Mayfair, part of the line

running to Shellbrook and Prince Albert.

COMMISSIONER MURRAY: That is all the territory in which you are distributing?

MR. McINTOSH: Yes. Prince Albert is pretty active, but we are not afraid to compete with Prince Albert or Saskatoon. I suppose the territory is big enough for all of us.

COMMISSIONER LEMAN: What comparison would you make between the territory tributary to Prince Albert and the territory tributary to North Battleford?

MR. McINTOSH: In my estimation we have much the better territory. North of Prince Albert is the National Park, and that cuts off their territory. Our territory runs right north to the end of the province. Northwest of us there is no point of any size outside of Lloydminster, so we have full competitive sweep there with Edmonton. With the round-about C.P.R. connection improved to the southwest and this other southeasterly C.P.R. line completed, we would have the required servicing south of the river in both directions -- southwest and southeast. We have a wonderful territory to the north, northwestward and north-eastward, but we are handicapped by the river. Surely, we are not going to be obliged to suffer under that handicap forever and not get the railway connections southward into that part of the province to which we are entitled?

SIR JOSEPH FLAVELLE: I do not say it in any frivolous spirit, but have you ever considered whether you might not bridge the river and do your distributing over the highways by motor truck?

MR. McINTOSH: I have not very much hope of that

means of distribution in western Canada. Distribution by motor truck may develop in the west, but not for years, to the point that it has in the east. Our winters are rather longer up in this territory than they are in eastern Canada. Our roads are also not built to the extent they are in Ontario and towards the Atlantic.

SIR JOSEPH FLAVELLE: The motor truck has to live out of the business it gets. The railways at the moment are living out of the assistance secured from the government or the people. Now, the way to overcome the disadvantages of the river might be for the local authorities to bridge it.

MR. McINTOSH: Bridge the river?

SIR JOSEPH FLAVELLE: Yes.

MR. McINTOSH: The local authorities would never do that. I am afraid that would take all the profits out of the motor truck business for a long time to come. It would cost about a million dollars to put a bridge there anyway. There is a traffic bridge between "The Battlefords" but no truck competition worth speaking about with the C.P.R. from Baljennie to Saskatoon. Neither is competition of this nature very likely to amount to much.

SIR JOSEPH FLAVELLE: It would cost that much whoever put it there. If the railways put the bridge there it will have to be paid for.

MR. McINTOSH: I think that southeast territory across the river coupled with "The North" will pay it; Canada will not have to pay it. That is my point -- that the territory is so productive and its possibilities so great that there is not any question about these lines and the bridge wherever built being paid for. Canada, as

Canada, will not have to pay one cent of the cost. I have already given as an illustration of the productivity of that area the fact that one million bushels of wheat was marketed from a single point. We have everything else in the way of resources that you have in Ontario and Quebec, so why should not the traffic pay for this proposed outlay, why should the Dominion be asked for a cent? I believe it is beyond the bounds of probability that Canada will be asked to pay a red cent.

SIR JOSEPH FLAVELLE: If it would be self-sustaining, that undoubtedly strengthens the case. The trouble is that similar undertakings have been urged just as strongly, but they have not turned out to be self-sustaining.

MR. McINTOSH: I admit that. But unquestionably we have a strong case. We were one of the last sections in the west to be given railway facilities. We suffered from 1905 to the beginning of the war. The Canadian Northern mainline had been built and an attempt made to branch-line that territory, but the war intervened and the work was shut down. Practically all the railway facilities we now enjoy are the result of strenuous work within the last six years. How could our people -- our farmers and business men -- 150 miles north get along without railway communication? Fortunately, the C.P.R. and the C.N.R. have charters to build the many lines not yet completed and when they are finished and in operation we shall be in a very favourable position, for which we are all very thankful. The C.N.R. and President Thornton, and the C.P.R. and President Beatty, deserve and have our utmost support and commendation for results up to the present. However, we

confidently expect still greater service achievements in the future.

May I direct your attention to the fact that the two railway systems by rounding out their facilities in North Battleford and northward as I have represented would be left intact, neither would be destroyed, but the utmost co-operation would be secured and at the same time competition maintained between them to a degree compatible with local and national realities. Surely this permanent proposal put forward for the complete railroading - without duplication of North Battleford and "The North Country" should be wholeheartedly approved and put into effect at an early date.

I thank you, gentlemen.

At 1.00 p. m. the Commission adjourned.

Page 2100 follows.



ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met at the Parliament Buildings, Ottawa, on Tuesday, February 16, 1922.

PRESENT:

RIGHT HON. LYMAN POORE DUFF, P.C.,	Chairman
SIR JOSEPH W. FLAVELLE, Bart.,)
BEAUDRY LEMAN, Esq.)
LEONOR FRESNEL LOREE, Esq.) Commissioners
WALTER CHARLES MURRAY, Esq.)
JOHN CLARENCE WEBSTER, Esq.)

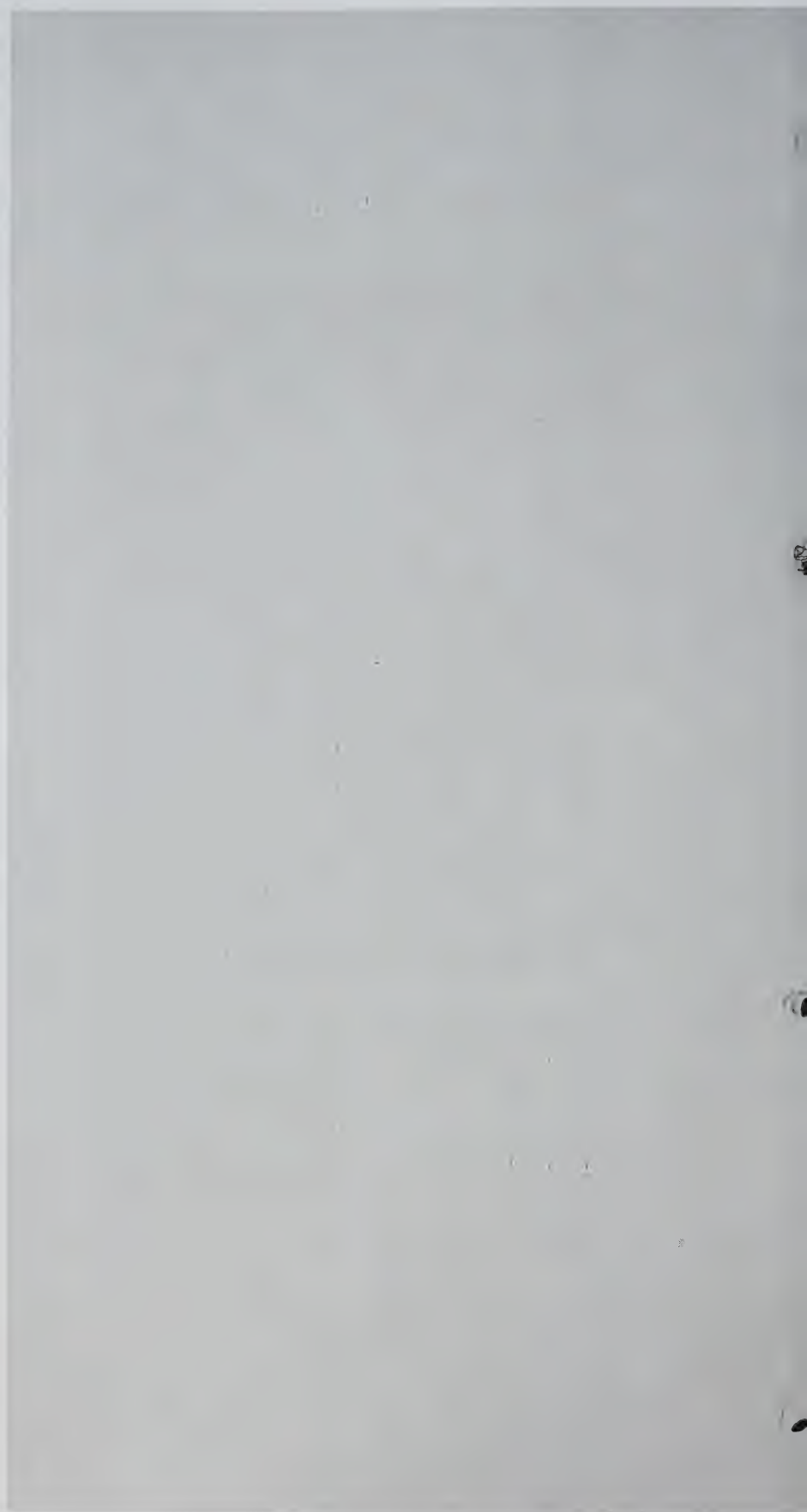
Arthur Moxon, Esq., Secretary

George W. Yates, Esq., Assistant Secretary

Representations were made to the Commission by:

C. C. Jeffrey)	Port Perry Board of Trade
J. C. Taylor)	City of Oshawa
		Town of Whitby
		Townships of Whitby, Reach,
		East Whitby and Scugog
W. J. Black,		Director, Colonization and
		Agriculture, Canadian
		National Railways

Sir Thomas Tait



Parliament Buildings, Ottawa,
Tuesday, February 16, 1932.

AFTERNOON SESSION

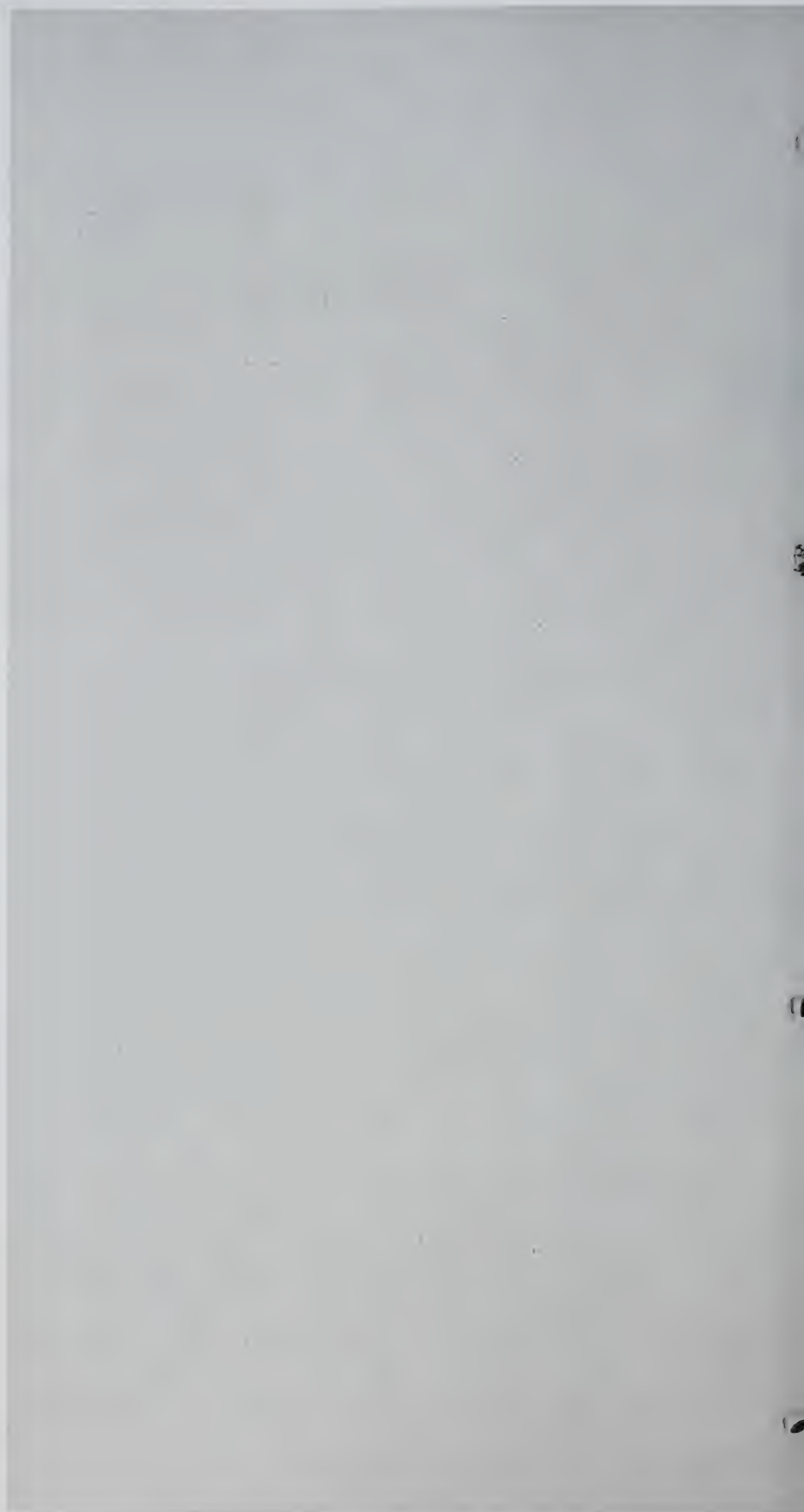
The Commission met at 2.30 p.m.

THE CHAIRMAN: Mr. Jeffrey.

MR. C. C. JEFFREY (Port Perry Board of Trade): Mr. Chairman and members of the Royal Commission: I am here representing the Port Perry Board of Trade, Port Perry Council, and the Townships of Whitby, East Whitby, Reach and Scugog, as well as the city of Oshawa, which is not on the line affected but is in the section of country affected. I will read this brief.

THE CHAIRMAN: Well, Mr. Jeffrey, I am looking through this submission, and I am afraid that the particular matter you deal with does not strictly come within our functions. If, however, you will leave this memorandum with us we will look over it; there may be something in it that will be indirectly helpful. But the Commission could not examine a question of that kind. There would have to be a regular hearing; representatives of the railways would have to be examined; we would have to receive the representations of all concerned. But we are not here to investigate complaints as to matters of railway service affecting particular communities.

MR. JEFFREY: I did not know whether it came under your jurisdiction or not, but we have been working with the Railway Company and the Board of Railway Commissioners for a year, and during that year we have lost 84 per cent of our train service. If it goes on many more months we will lose the other 16 per cent because they



are not running trains now. The road cannot show any earnings, but there are not enough trains on it to show any. Our suggestion as outlined on the last sheet of the brief, with the map, shows the proposed rerouting of present trains. It is not going to cost anything to do what we ask; all we want to do is to divert two trains from Manilla to Toronto through Port Perry and Whitby instead of four -- Canadian National trains.

THE CHAIRMAN: I am sure you will see at once, Mr. Jeffrey, that in order to deal with this matter we should have to hear experts, and we should have to hear the railway.

MR. JEFFREY: That is true.

THE CHAIRMAN: If we entertained every complaint of this kind we would be engaged in dealing with particular complaints all the time, which really is not our function.

MR. JEFFREY: I suppose that is true.

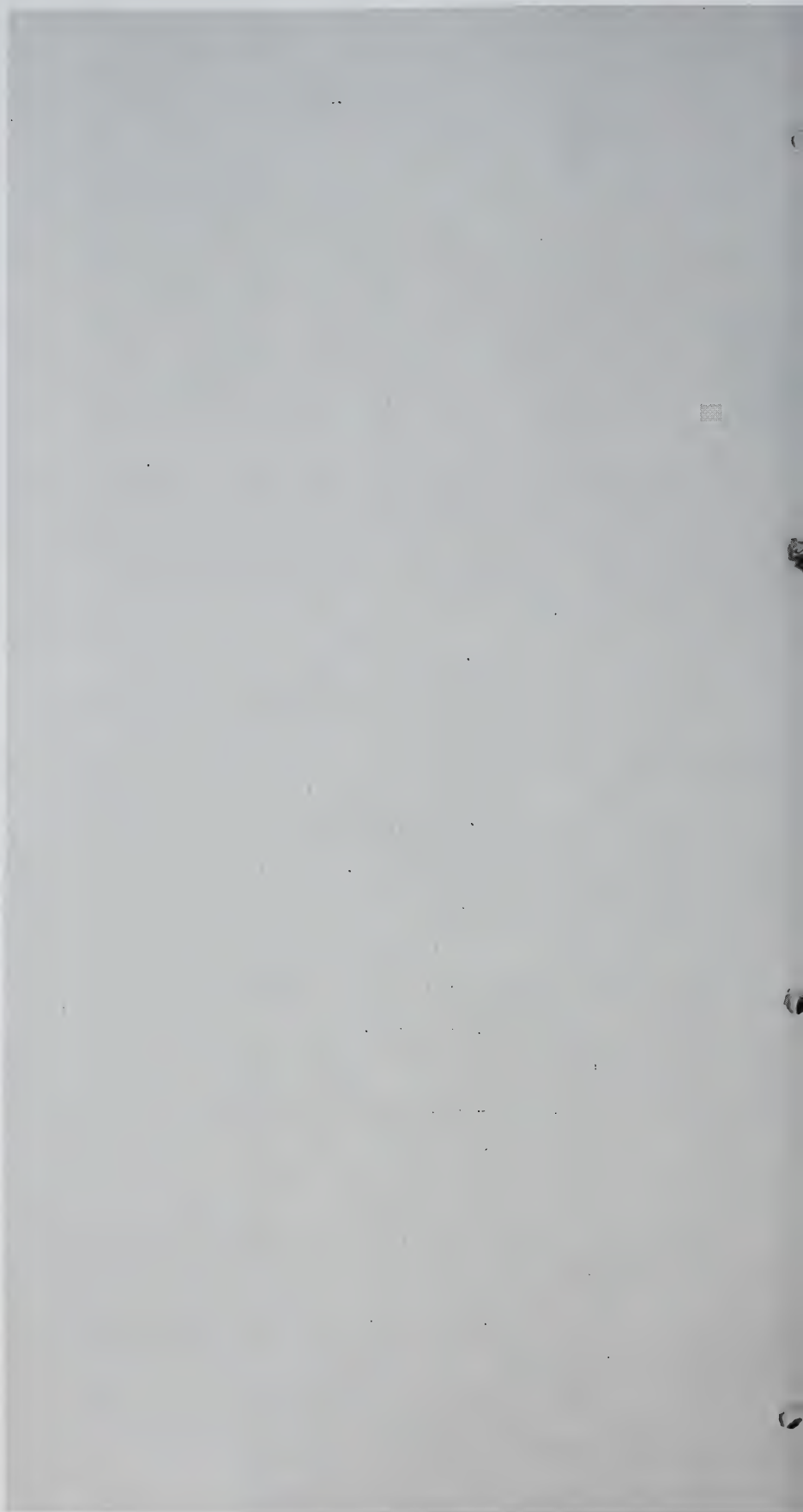
THE CHAIRMAN: It is the general question we have to consider, although there may be something in this that will afford some kind of suggestion to us that may be useful in connection with the general question.

MR. JEFFREY: A year ago Uxbridge had thirty trains a week, and they still have thirty; a year ago we had twenty-four a week and now we have four. We feel that we have hardly had justice.

THE CHAIRMAN: We cannot help sympathizing with you in that. To what extent does motor transport supply your needs?

MR. JEFFREY: They have a very good bus service -- there is a paved road in.

COMMISSIONER LEMAN: From Manchester to Whitby?



MR. JEFFREY: Yes, a very good bus service. But that doesn't take care of our freight and express. The express and freight, and to a great extent the passenger traffic, could still be given to the railway if we had the trains. It wasn't that the earnings fell off first; they took the trains away first and then of course the earnings did fall off.

THE CHAIRMAN: What reason did they give for cutting off the trains?

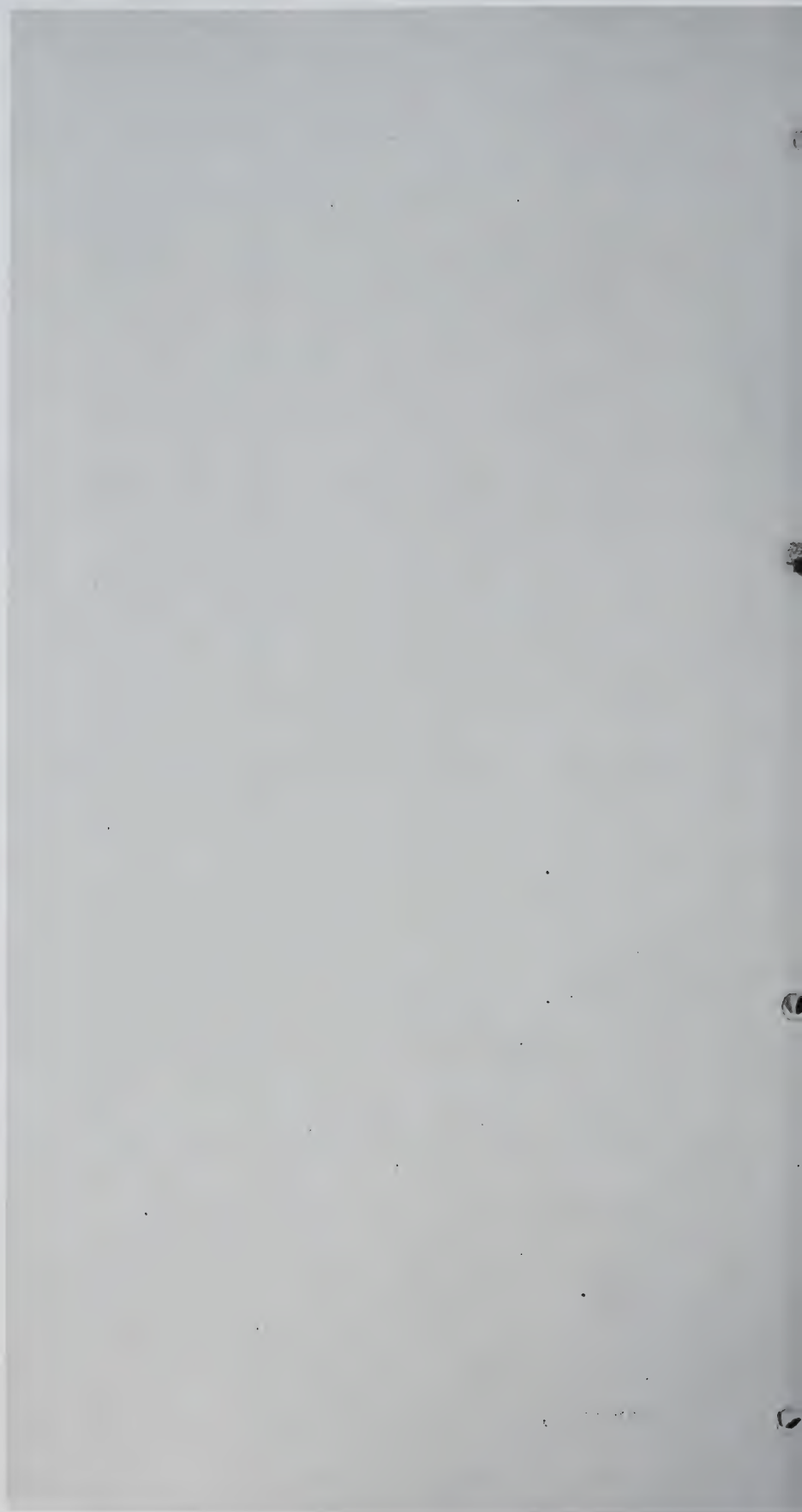
MR. JEFFREY: To save overtime wages. They saved \$300 a month in overtime wages on the whole branch, but inside of six months after they took the trains off, Port Perry station alone dropped \$400 a month in earnings, and they had all the other stations on the line besides. The decrease in revenue was from 25 to 33 1/3 per cent more than the saving, so that apparently it wasn't good business to do it.

THE CHAIRMAN: No; very likely it was not, but that is really a matter of railway administration affecting the district.

MR. JEFFREY: We cannot get the Railway Board to order that these two trains be diverted through Port Perry instead of through Uxbridge.

THE CHAIRMAN: They are in a better position to deal with the situation than we are, you know.

MR. JEFFREY: It makes a difference of only six miles. Why should they have thirty trains a week while we have only four? It doesn't look quite fair -- in the same county, and the towns are about the same size. Moreover, we have a better farming district than they have.



Mr. Jeffrey

COMMISSIONER LEMAN: What is the population of Port Perry?

MR. JEFFREY: About 1,200.

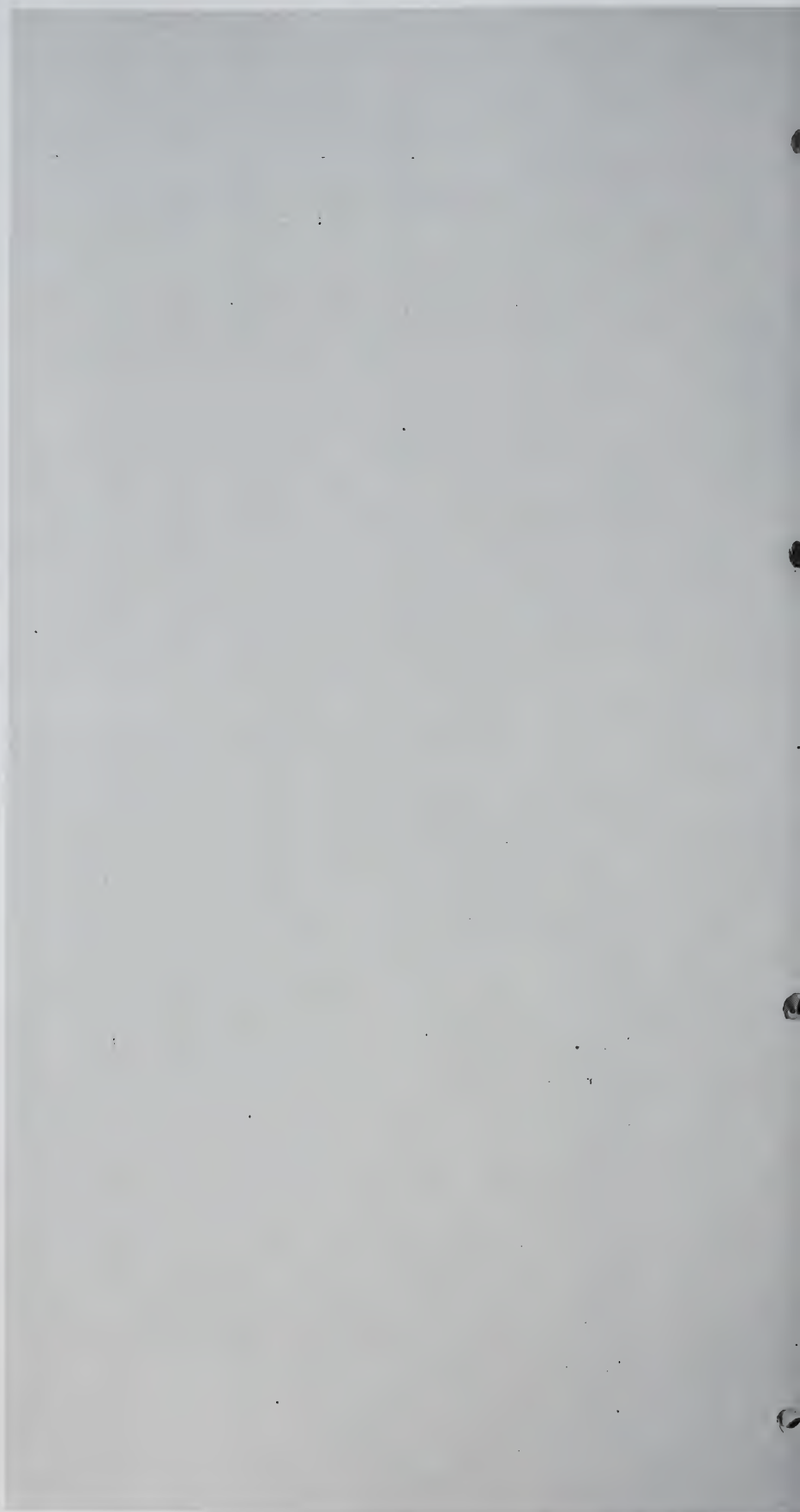
THE CHAIRMAN: Well, we will look over this, but I am afraid we cannot hold out any hope that we can really do anything for you.

MR. JEFFREY: It looks to us as if it were quite a simple thing to do -- to divert two trains. We have no train through our town on Monday and Thursday either way. We subsidized this road to the extent of \$200,000 when it was built, and now we are not getting any trains. There is no other road in Ontario that has been cut as much as we have.

SIR JOSEPH FLAVELLE: What does the railway say about it?

MR. JEFFREY: I am afraid the railway is biased. I do not want to be personal in the matter, but the Passenger Department of the railway is very much opposed to doing anything for that line. In fact they made a mistake of \$68,000 a year in what they told us it cost to operate the line. I wouldn't say it was intentional, but on a line thirty-three miles long you would think they could tell when there was an error of \$68,000 in their figures. It was pointed out to them after the hearing in Whitby a year ago, and they admitted the error; I have all the correspondence. We have had a really hard battle for a year with the Railway Board and the railway company, and we thought perhaps this was our opportunity to bring everything to light and see if something could be done. We thought we had hardly had fair play.

SIR JOSEPH FLAVELLE: Of course, Mr. Jeffrey, ours



is the large aspect of the whole problem.

MR. JEFFREY: I know it is.

SIR JOSEPH FLAVELLE: There are questions all over Canada now of cutting down railway services; they will have to be dealt with by the Board of Railway Commissioners.

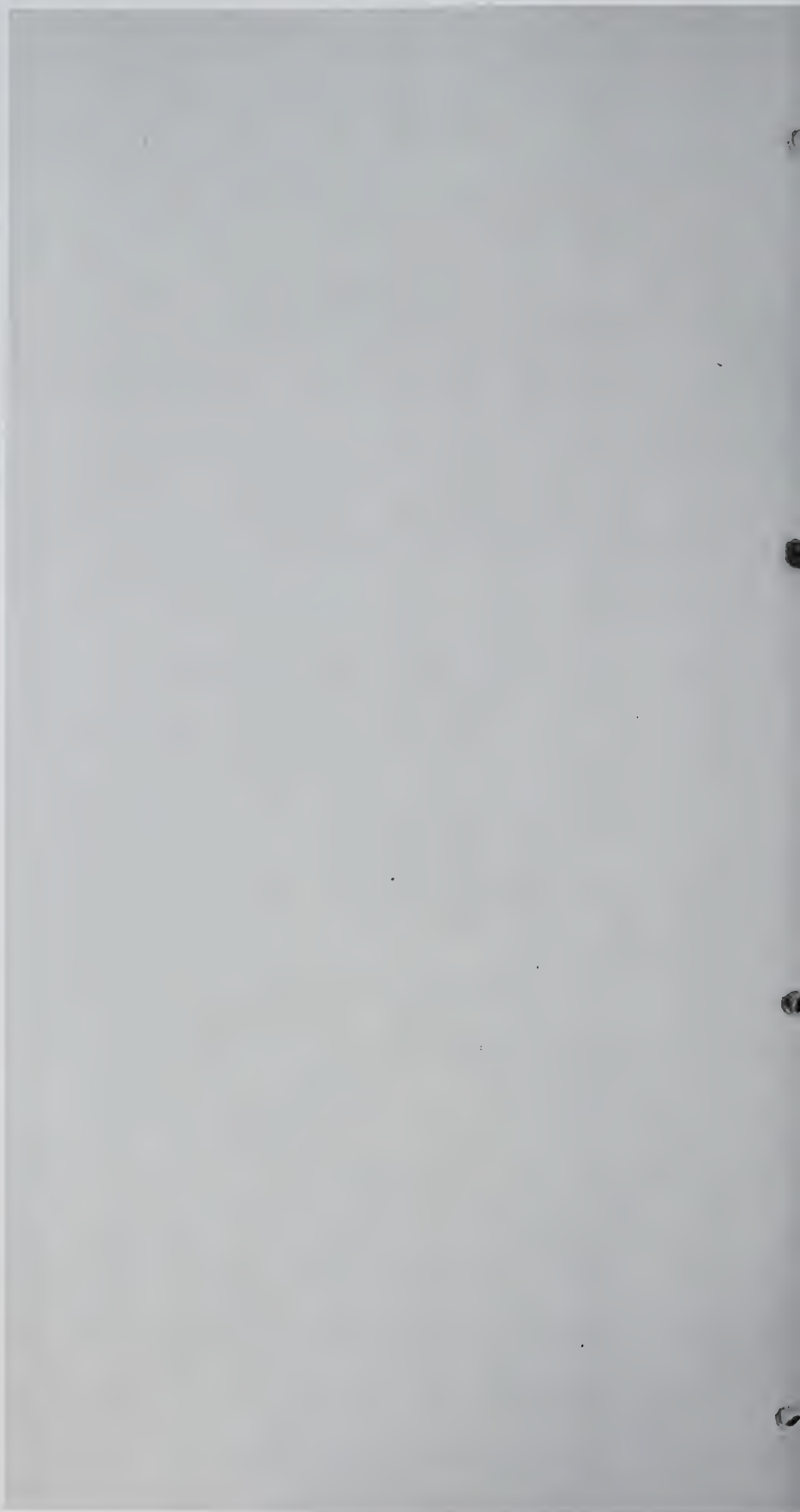
MR. JEFFREY: We are willing to stand a fifty per cent cut; we can do with two trains a day, one each way, and that is all we are asking. We are not asking for new trains; it is simply a question of diverting two trains that are already being run from Peterborough to Toronto -- running two through Port Perry and two through Uxbridge instead of four through Uxbridge and none through Port Perry. I should think they would make more money running two trains over each line than four over one and none over the other.

SIR JOSEPH FLAVELLE: Who is your superintendent?

MR. JEFFREY: Mr. Stokes. He is in Belleville. We thought perhaps this was the place to come to state our difficulties.

SIR JOSEPH FLAVELLE: We will read your memorandum.

MR. JEFFREY: I know the branch can be made to pay; there is no doubt about that. When we had a train to Toronto in the morning and one back in the evening the passenger receipts were around \$1,000 a month, sometimes as high as \$1,200, at the one station of Port Perry. When they took the trains off the receipts dropped right away to two or three hundred dollars a month -- that is at one station. The passenger earnings since we got our four trains a week have been running about \$10 a month, and of course the Passenger Department says: You haven't got any



earnings there; why should we run any trains? On the other hand we have not any trains that the people can use. There are two days a week when we have no trains at all, and the two we have are only mixed trains, mostly freight trains with a passenger car on the back, and they are apt to be anywhere from on time to three hours late, depending on the amount of freight work they have to do along the line. Our passengers really cannot use the trains; they do not make connections at either end without waiting at Manilla or Whitby Junction; passengers have to sit in the station at either end of the line and wait for another train to come.

THE CHAIRMAN: Mr. Jeffrey, we really do sympathize with the position, but as you have already been told several times, the subject matter of your memorandum is outside the scope of our inquiry, and we should be doing positive wrong to go into it. We have gentlemen here who are waiting to be heard, and we have many duties ahead of us. If we dealt with representations of this kind we could not refuse to hear representations from any other locality that felt itself aggrieved, and that would mean we would never get through with our work.

MR. JEFFREY: I see. Well, if there is anything you can do, or if you can get any ideas from the brief we have prepared --

THE CHAIRMAN: We will undertake to read this. I am afraid we cannot promise you anything more than that.

MR. JEFFREY: Thank you very much.

THE CHAIRMAN: We will hear from Dr. Black.



SIR JOSEPH FLAVELLE: Dr. Black, the Chairman has asked me to introduce the matter. You were unwell at the time we heard the Canadian Pacific administrators and could not be here.

MR. BLACK: Yes; I was very sorry, sir.

SIR JOSEPH FLAVELLE: We hope you will feel free to say to us anything concerning your colonization services that you think would help us to understand the transportation side of it from your viewpoint. We are not thinking of asking you questions at this stage, but may do so in connection with matters arising out of what you say concerning the work of your Department.

MR. BLACK: Well, in connection with our colonization activity -- and I may say I am also responsible for agriculture in so far as the railway is related to it -- we recognize first of all two great responsibilities: first, that of endeavouring to increase the number of farm settlers adjacent to our line or in territory contiguous to our railway; second, we try to display an interest in the degree of success which agricultural settlers or people engaged in agriculture generally in territory contiguous to our railway meet with in their efforts.

The Colonization Department of the Canadian National Railways really came actively into existence in the year 1925. It was laid down at that time as a cardinal principle that our only important effort should be by way of getting agricultural settlers placed adjacent to our line, and further that in doing so our interest and that of the country at large were one and the same thing, in that there was not any advantage in our getting a family to settle adjacent to our land unless that family could be settled under conditions



that were likely to guarantee a fair measure of success. So that led to a careful selection of settlers. When we started out to find suitable settlers we set up an organization which was somewhat active in the British Isles in cooperation with the Canadian Department of Immigration, and also on the continent in cooperation with the steamship lines sailing into Canadian ports.

COMMISSIONER WEBSTER: That did not include the Canadian Pacific?

MR. BLACK: No; but in reality we were cooperating so far as colonization was concerned, and in fact always have. Perhaps no two departments of the railways have worked in any closer relations than our two departments, because our interests have been one and the same, with just this exception: we have not been interested in transportation on the North Atlantic, while the Canadian Pacific has, and that you can understand from a business standpoint might influence any institution.

Our only interest, then, has been to get the kind of people who could be settled satisfactorily in Canada; and so I set up that kind of organization in Europe. It took a little while, but we made it very clear to the steamship lines that in so far as their effort was concerned it would be fruitless unless it was based on that theory.

Up to the time that the present period of decline started we had been responsible for something over eight thousand families from Europe.

SIR JOSEPH FLAVELLE: Over how long a period?

MR. BLACK: That would be from 1925. At the same



time it should be pointed out that it took a while to get started. In 1925 there were comparatively few; not so many in 1926, but in 1927 they began to come, and about 1928 and 1929 they were coming at a very fair rate. It was not until last year, 1931, that the decline became very apparent so far as movement from Europe was concerned, that is of settlers who were eligible to enter Canada. The movement from the United States had been almost the same from year to year up to the last two years, when it fell off a little; but it is beginning again to show signs of brightening up.

SIR JOSEPH FLAVELLE: Where is your field in the United States?

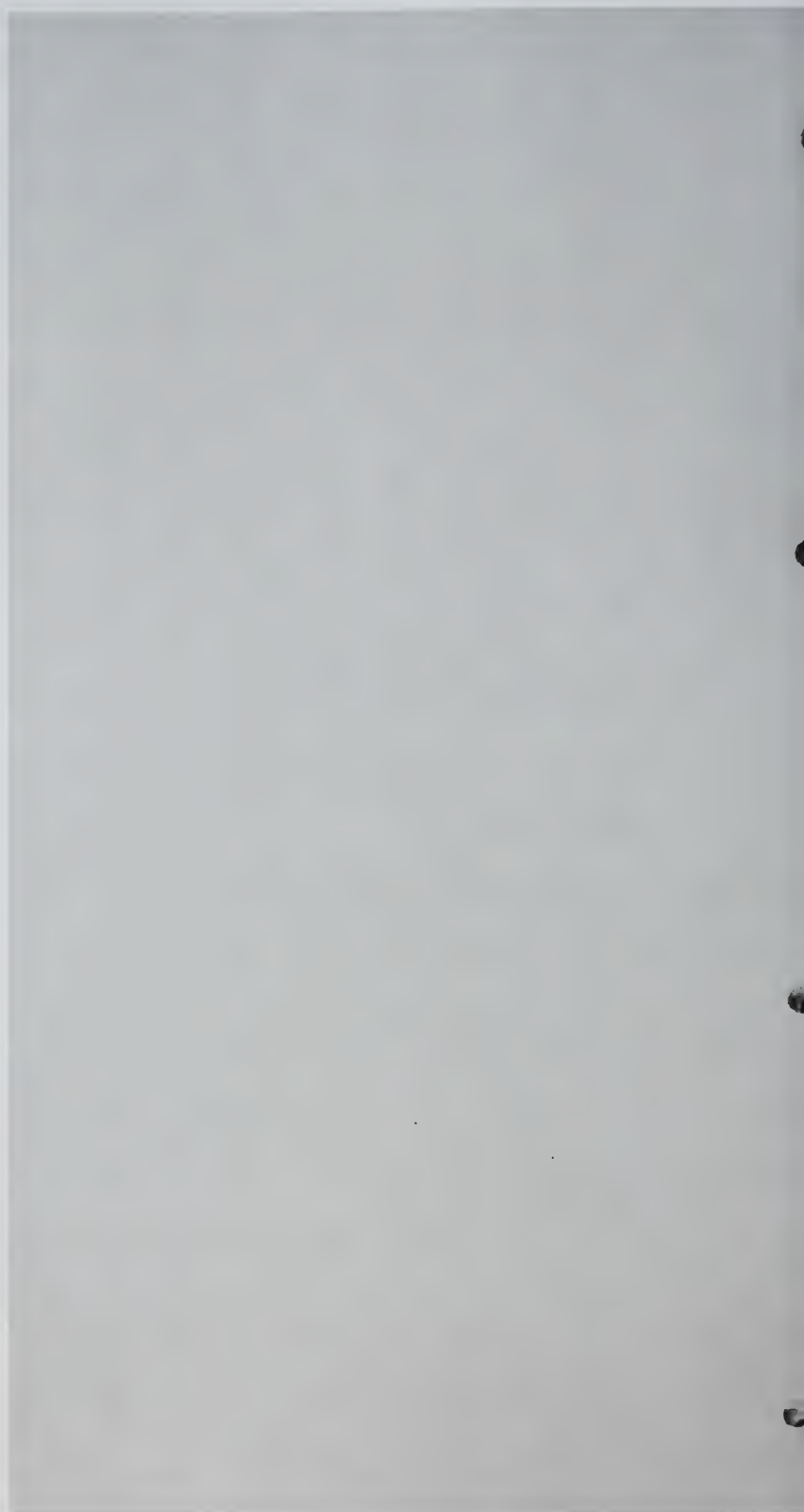
MR. BLACK: Central United States.

SIR JOSEPH FLAVELLE: Tenant farmers intending to become freeholders?

MR. BLACK: Tenant farming in the United States has increased. At the present time there are more tenant farmers looking for farms than there are farms available for rental. There are plenty of farms available for sale in the United States central west, but not enough for rental, and these people are now inclined to turn their attention to Canada. The immediate prospect so far as Canada is concerned is improving in respect of that possible field for settlers.

SIR JOSEPH FLAVELLE: That is a good type of settler.

MR. BLACK: Very good indeed. He understands the system of farming that is followed in our Canadian west. He always has equipment of his own, and while he has not



much capital he comes with the facilities necessary to make a start.

COMMISSIONER LEMAN: Have you the necessary freedom to bring them in at present, or are there restrictions in your way?

MR. BLACK: Well, the policy in Canada for the last year and a half or so has been not to admit anyone to this country who perchance might get into the labour market. There has been a tendency in the past few years on the part of those who come in to engage in farming to look for a certain amount of other employment for a period; that has been true of settlers coming from the British Isles who had small amounts of money. They would go away for two or three months, find employment and get some extra money. Largely for that reason, and also because of the increase in unemployment in Canada, the Canadian Department of Immigration has been very careful about letting people in.

So far as homesteads in Canada are concerned, they are now far removed from the railway, although there are some exceptions in the Peace River country and to some extent in northwestern Saskatchewan.

COMMISSIONER LEMAN: Are there not several homesteads available in northern Saskatchewan between Prince Albert and Edmonton?

MR. BLACK: Not of good quality, I would say.

COMMISSIONER WEBSTER: How about the district around North Battleford?

MR. BLACK: In the region north of North Battleford to Beaver Lake there is territory where there are some very good homesteads perhaps within twelve or fifteen miles of



the railway, but I would not say there is a large number of them.

SIR JOSEPH FLAVELLE: As a matter of fact under existing conditions you are rather looking to men with sufficient money to be able to buy a piece of land?

MR. BLACK: Yes, there is any amount of land available for purchase within fifteen miles of existing railways.

COMMISSIONER MURRAY: Railway lands as well as the others?

MR. BLACK: Yes.

SIR JOSEPH FLAVELLE: Have you any of the old land grants still left unsold?

MR. BLACK: Yes, we have somewhere in the neighbourhood of 700,000 acres -- not so much, comparatively, but it has been pretty well culled over. We do not make a point of trying to sell it, except locally. As a rule we do not sell it to immigrants; it is seldom an immigrant settles on any of our own land. For the most part it is sold to resident farmers who desire to purchase additional land as a run for stock.

SIR JOSEPH FLAVELLE: Have you made an estimate of the value to your railway of the family put on the land? Do you agree with the figures of the Canadian Pacific?

MR. BLACK: Yes, I do. I confess that at first I thought they were high, and we have thought so for a considerable time. But during the last three or four months I have given a good deal of time to that very question; I have checked their figures, and I have come to the conclusion that for the period in question, namely 1916 to 1921, their figures are probably correct. I happen to know the person



who prepared the figures for them, the late William Pierce; I know he was very careful and I am inclined to accept those figures. But that was for western Canada; they would perhaps be a little high for other provinces and possibly rather high even for the west just at present.

SIR JOSEPH FLAVELLE: Are your activities mostly in the western provinces?

MR. BLACK: No, they are not. We have tried from the first to be equally active, or at least as active as the circumstances would permit, in all provinces of Canada as to the location of the settlers whom we could get. To that end we opened an office in Moncton, and we have been operating in Ontario, mainly in cooperation with the provincial government, although they have an office in Toronto with a staff of just two. But we have endeavoured wherever possible to operate with the provincial authorities in settlement work.

SIR JOSEPH FLAVELLE: How expensive is your organization? What is your appropriation for say this year, and what was it for last year?

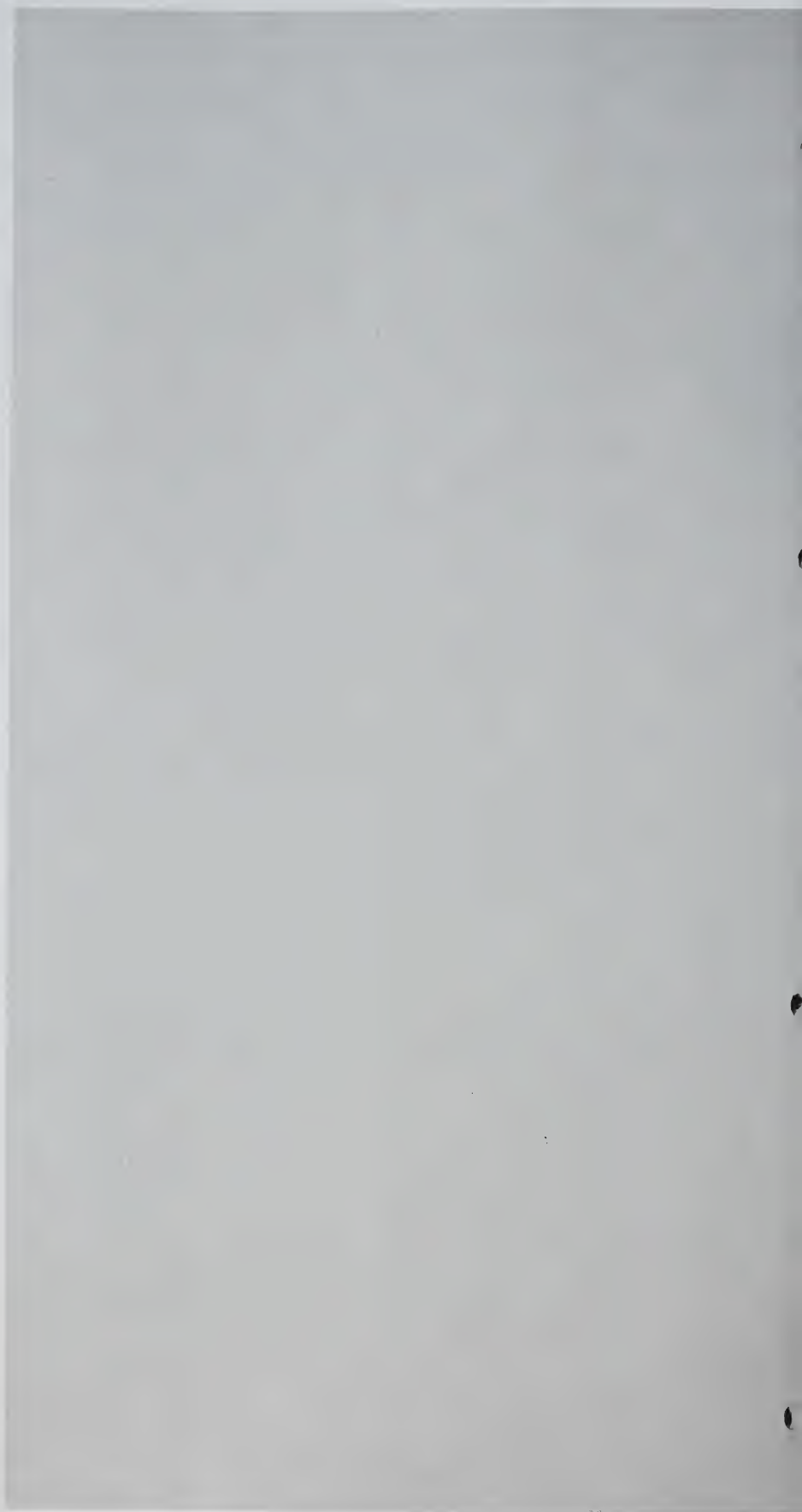
MR. BLACK: We spent on colonization account, \$253,000. That of course is a very considerable reduction as compared with three years ago.

SIR JOSEPH FLAVELLE: What did you spend then?

MR. BLACK: In 1929 our total was \$455,000. Last year, 1931, it was \$253,000.

COMMISSIONER WEBSTER: How did you cut it down?

MR. BLACK: I started in June, 1930, to cut my staff rather drastically. I probably did it before anyone else because I foresaw what was coming; so we lopped off all the members of our staff who were not so attached



that their services could be dispensed with without serious inconvenience. I closed some offices and took various steps of that kind in order to cut down our expenditure as fast as we could.

SIR JOSEPH FLAVELLE: Have you any measuring rule that you apply as to the cost as compared with results? You say you brought in eight thousand families; have you attempted to estimate how much they cost you per family?

MR. BLACK: Yes. Our total cost from Europe has been about \$8.30 per head.

SIR JOSEPH FLAVELLE: In other words a family of five would be \$40, is that it?

MR. BLACK: Yes. That figure of \$8.30, from 1925 to 1931, includes 125,471 farm labourers, 9,459 domestics and 3,279 juveniles.

SIR JOSEPH FLAVELLE: You have not your family unit in that?

MR. BLACK: No, it is not included in that. The 8,041 families would be roughly 40,000 people; I have not figured that out. It will be a little over \$8.30 per head, but it would not run more than about \$11 or \$12, I suppose.

SIR JOSEPH FLAVELLE: They would soon become productive?

MR. BLACK: Yes. We have not brought in any single workers except those who were agriculturists and those who came in to engage in farming.

SIR JOSEPH FLAVELLE: On the whole what has been the story of these men?

MR. BLACK: Up to the time that work in the country became impossible to get in the winter time in the woods, the story has been a very satisfactory one

indeed. It has happened, of course, that men have come to farm, and because they could get employment in the city at higher wages than in the country they have gone there to work for two or three years, returning afterwards to the country. Last year, 1931, we placed some 2,800 people on farms in Canada, although we brought in practically no families.

COMMISSIONER LEMAN: Taking them from the cities and putting them on the land?

MR. BLACK: Yes, and of course some of these were Canadians who had been in the cities. But still quite a large percentage were "back to the land", people who came from Europe intending to settle on the land in two or three years.

SIR JOSEPH FLAVELLE: Do you include England in Europe?

MR. BLACK: Not when I speak of Europe -- I refer to the British Isles as distinct from Europe. We have found it perhaps more difficult to get qualified settlers from Great Britain who could settle on the land in Canada. The number of people in England or the British Isles who have money enough to come to Canada and establish themselves on the land, and are prepared to do so, is not large.

SIR JOSEPH FLAVELLE: You find you do rather better from the continent, do you?

MR. BLACK: Yes.

SIR JOSEPH FLAVELLE: Any particular part of the continent?

MR. BLACK: Well, the people of the German race, whether from Germany proper or not, and those from the

Scandinavian countries and Holland, are pretty satisfactory.

SIR JOSEPH FLAVELLE: And Denmark?

MR. BLACK: Denmark, yes. We have had a large number of people come from Poland and from the Ukraine who have turned out exceedingly well.

COMMISSIONER LEMAN: Did you have anything to do with bringing some of those Danish families into New Brunswick?

MR. BLACK: Yes.

COMMISSIONER WEBSTER: Are you working with the New Brunswick Government?

MR. BLACK: Yes.

COMMISSIONER WEBSTER: It is not their effort alone?

MR. BLACK: We work with them. Likewise the federal government works with them, and the Canadian Pacific I believe work with them to some extent as well.

COMMISSIONER WEBSTER: On that point, Dr. Black, is there any unnecessary duplication of services between you and the Canadian Pacific and the Dominion government?

MR. BLACK: I do not think so.

COMMISSIONER WEBSTER: What is the Dominion government doing that you are not doing?

MR. BLACK: We must bear this in mind: the Dominion Government is required to conduct a very extensive inspection service, and we have nothing to do with that. In so far as their placement on land is concerned, that is largely carried out through the Land Settlement Branch of the Department of Immigration, and we work with them. That is to say, if we have a settler who desires a certain location of a certain type and we do not know of a place

that will suit him, we immediately get in touch with them. There is very close contact in that regard; the settler is turned over to them and they handle him entirely.

COMMISSIONER WEBSTER: Would it not be just as satisfactory if the Colonization and Immigration departments of the two railways could work together? Couldn't you save a lot of money and be equally efficacious?

MR. BLACK: That is, work together as one institution?

COMMISSIONER WEBSTER: Yes, either as one institution or coordinated in some way. You would not have as large staffs as you have now.

MR. BLACK: Well, we have not a large staff.

COMMISSIONER WEBSTER: Their budget was half a million last year, I think, or more. Couldn't all that work be carried on equally well by one organization with one head?

MR. BLACK: I have given that question a great deal of study, and I confess there is a good deal to commend the idea. There are differences of responsibility; there are peculiarities in the situation that only those who are in it could be expected to understand. There is one difficulty in that connection I want to point out to you; I do not know whether it can be overcome or not. The securing of the right kind of settler is one of the greatest problems we have to face to-day. It is not a case of going to Europe or any other country and literally shooing the people over here. It is a question of selling Canada and her opportunities to people in these other lands, and they are not as readily available as they were in days gone by, neither are other

countries so ready to let their useful people go. Some are, but others are not. Therefore there has to be an effort to get the right kind of settlers; in other words you have to sell Canada. I have found that beyond any doubt the most effective agencies that we can have working with us are the continental steamship lines, who in almost every case have vested interests in their respective countries. It is to their interest to sell tickets, of course, to people who wish to cross the Atlantic, and they assist us in locating the right kind of settler on the other side. Now, if we were operating as one organization only, let us say as the Canadian Pacific, we would undoubtedly be deprived of all that interest; and I want to say to you very frankly that because of connections which I was able to develop in Europe with these steamship lines -- and which I grant you is not in one sense a purely Canadian enterprise, but it was business on our part to develop business -- we were able to locate and induce to come to Canada a much larger number of suitable settlers than the Canadian Pacific were.

COMMISSIONER WEBSTER: Suppose you were at the head of the new department of colonization and immigration, you would work just as faithfully; you would use all these agencies as well as the Canadian Pacific, wouldn't you -- or could you?

MR. BLACK: Of course I would attempt to do so, there is no question about that, because I know that is the only effective way, or at least could be by far the most effective. But I do not believe they would cooperate with me in the same way. Then in Canada of course there is always the question to be decided as to whether



the person coming in is to be settled in territory adjacent to one line or to the other. Apart from those two main questions, I think the rest could be dissolved, and may be these could be dissolved too -- I am not here to say whether they could or not.

COMMISSIONER WEBSTER: If you were working to save money you could surely work out a scheme for one operating body.

MR. BLACK: I am not prepared to say it is not possible.

COMMISSIONER MURRAY: Have you been active in the transfer from the dried out areas to the northern districts? Has that been the main part of your work this year?

MR. BLACK: We have assisted those who felt they had to move, in finding locations. It has not been the main part of our work, but wherever people signified their intention to move, we of course indicated our readiness to facilitate their being settled. We are naturally not anxious to see them leave our lands, or at least lands tributary to our railway, even in the dried out territory, but we have done nothing to induce them to stay there, because there wasn't much that could be done. We have not restricted their going.

COMMISSIONER LEMAN: The main point is that in a great many cases they have not the wherewithal to move.

COMMISSIONER MURRAY: They have been moving in large numbers.

MR. BLACK: The provincial governments have been rendering some assistance.

COMMISSIONER MURRAY: About ten thousand of them. What is your practice with regard to the follow-up of men

who go on the land?

MR. BLACK: It has been our policy from the beginning to get such of the work as we felt ought to be done carried on by some local agency, and we have endeavoured to get the departments of agriculture to interest themselves in the new settlers as quickly as possible. Take, for instance, that territory north of Battleford towards Beaver Lake, where a lot of people have gone in. I found it necessary to have our agriculture men, for instance, go in there and hold meetings, always on the understanding that as soon as we could get them established and connected with Regina or with their own institutions we would disappear as quickly as possible. We have held agricultural meetings in a number of new settlements, calling the meetings ourselves, and we have had men from the extension services of the provinces, the Department of Agriculture and the universities, come out and assist us. Then we have had demonstration trains running into some of these territories. In many cases we assist the new settlers, where it is desired that we do so, in the purchase of live stock and equipment, in order to make sure that they buy the right kind and do not pay too much for it.

In connection with our effort to get the right kind of settlers and to make sure that when they arrive in this country they go on the land, some four or five years ago we instituted a system under which a settler leaving, say, Poland to come to Canada had to buy a Canadian National Railway express order for the minimum amount of money which we considered would entitle him to come to Canada and be placed upon the land. That express order had to be signed

by us at, say, Winnipeg or wherever else he was heading for -- a central point -- before it could be cashed. This was done in order that we might have control over the fellow who might wish to go off to some town or city. In 1930 alone we handled \$589,822 worth of express orders for continental people -- that is a lot of money -- and we found that as a rule these people had more than twice as much money as we got our hands on in that way. The Canadian Pacific are doing the same thing, although they do not follow exactly this practice; their people no doubt had smaller amounts of money. At any rate it meant that in 1930 a couple of million dollars were distributed in Canada by continental people, a large part of it in the west, and undoubtedly that had a stimulating effect.

So we argue that one of the things we need, even in these days of unemployment and depression, is to admit to this country every man who has sufficient money to take care of himself on the land and to make employment for others; because we have found by experience that every time you put a family in the country, in effect you make a place for an equivalent family in an urban centre. When a family comes in to go on the farm, it means that some other family gets employment -- so long as they are able to take care of themselves and are not going to be a burden on the municipality. So we are arguing that very strongly at the present time, and I see no reason why it should not be a matter of national policy even in these days of unemployment.

COMMISSIONER LEMAN: Even if you had to help them out; because you are creating capital which you will have

the benefit of by and by, whereas if you simply give out a dole or provide unemployment relief you are just working within a circle.

MR. BLACK: Quite so. Perhaps it is natural for one in a particular activity to become enthusiastic about its possibilities, but we do think that the settlement of vacant lands adjacent to our railway lines presents a wonderful opportunity from the standpoint of increased freight traffic in the days to come. I do not think it is a case of over-production; I do not consider that argument well founded at all, and I say so from the point of view of one who has been all his life in agriculture.

SIR JOSEPH FLAVELLE: The development of a greater tonnage on the farm is of immense importance in the matter of railway earnings.

MR. BLACK: Quite so; and with proper organization we are convinced that there is nothing to hinder a great increase in the tonnage from lands that are now under cultivation.

SIR JOSEPH FLAVELLE: The organization being with the farmers themselves?

MR. BLACK: Largely, but to begin with it will have to have some leadership. Let me give you one or two figures on the question of the importance of dairying to national development. The average cow in Canada produces about 150 pounds of butter fat per year. The average cow in Denmark produces 260 pounds of butter fat. The average cow in Canada is producing at present something less than 4,000 pounds of milk. I have not the average for Denmark, but it is about 7,000.

COMMISSIONER LOREE: Do you have boys and girls

calf clubs in the provinces?

MR. BLACK: Yes, we are developing that quite fast, but we have not yet reached the point that you have over there. We have a great range of clubs -- calf clubs, pig clubs and so on. We find that where the spirit is willing but the flesh is weak, as in the case of farmers who have reached middle age or over and we cannot get them to change, the next best thing is to get right after the next generation. We are doing that through the boys and girls and are already beginning to get results.

COMMISSIONER LOREE: Have you breeding clubs among the owners of shorthorns, Guernseys and other breeds?

MR. BLACK: Oh yes, quite a few.

COMMISSIONER LOREE: We have in New Jersey clubs of various kinds -- Holsteins, Guernseys, Jerseys, and so on, and a good many boys and girls calf clubs. I have a small herd of Guernseys, about twenty-five head. I have never sold any bulls; I have sold calves and got almost nothing for them. But once in a while I reserve one for breeding purposes, and I have always given them as prizes so that they become scattered all over the state. Once or twice a month I get a letter from some boy or some girl who has taken a prize in the neighbourhood, perhaps enclosing a photograph of the bull and the owner. It costs practically nothing -- they are all thoroughbreds, of course -- and gradually you get the good influence of this stock on the breed. The grades are good, and they improve as they get more and more Guernsey blood in them.

MR. BLACK: Quite so.

SIR JOSEPH FLAVELLE: Now, Dr. Black, the clock

tells me we are getting on, and our friend Sir Thomas Falt has been waiting. Is there anything else on your mind that you would like to say to us?

MR. BLACK: Just this in conclusion: I feel very strongly on this question of the railway looking not only to the settlement of new lands but especially to the question of better farming on the lands that already exist. Our attitude towards agriculture is slightly different from that of the departments of agriculture in that it is commercial -- we are looking for real results. I was in administrative work myself for many years, as you know, but it is now a question of getting results. We do admire the American railroads, especially those in the central west and to the south that are mainly dependent on agricultural territory, for the attention they have been giving to agriculture.

COMMISSIONER LOREE: The census of the United States for 1930 shows that the farm population is 4,235,000 less than it was in 1920. Is there any such drift away from the farms in Canada?

MR. BLACK: There is and always will be a drift from the farms to the cities, because apparently there are certain people who are temperamentally and otherwise better fitted for urban life than for country life. And then there is in the background this economic aspect of the question which we always have to bear in mind, that in reasonably good times, or in what we regard as such, the rewards of those who labour seem to be greater in the industrial centres than in the country, because the workers in the industrial centres can have something to say about fixing their wages, whereas in the country they cannot.

COMMISSIONER LOREE: I wondered whether it was a question of wages or conditions of employment. The farmer has to get up and attend to his stock before daylight, and he is not through until after dark. He does not work all that period, but the spread of his labour amounts to about 6,000 hours a year. The spread of labour of a man who is working six hours a day on a five day week, allowing an hour for luncheon, would be 1,750 hours. How are you going to keep anybody contented on the farm with a labour spread of 6,000 hours when he knows that other fellows are getting a labour spread of 1,750?

MR. BLACK: There are difficulties in that connection, I know. It is perhaps only those who appreciate the importance of having at all times a home of their own, even in periods of depression, where they do not have to pay rent and where they are sure of their food, who will stay on the land. I once ran a large farm close to the city. We got our men from the old land and we paid the highest wages that were being paid in the country, but no higher than the best farmers were paying. When they came to know that they could get \$10 a month more in the city and would be able to work shorter hours, they left. But every once in a while we had a canny Scotsman or man from England who would say: "No; I am going to farm," and he stuck. I have followed some of those fellows since the time they worked for me, and I find them out on farms, in homes of their own, independent and making progress, while the other fellows, living around the suburbs of a city in homes that are not good enough for them, are complaining about the general conditions. That is what happens to a large percentage, I believe, of those who

allow themselves to be drawn away from the land by the desire for city life. Fundamentally I do not believe there is any greater eliminator than agriculture. Many people go out to make a living by farming who are not qualified to do so under the conditions where they must settle, and that is why the European makes the success in western Canada that he does; he adapts himself to the conditions and follows a standard of living that will enable him to continue on from day to day. We say that he is thrifty, but when what we call times of depression come on, he is in a pretty good condition.

Mr. Chairman, I was jutt going to add this: We are planning to submit a joint statement regarding these matters, but we wish to show you the vacant lands adjacent to our lines. The red marks you see on the sheets which I will hand you are in northern Manitoba and are mostly farms that are now vacant because there is nobody available to go on them.

SIR JOSEPH FLAVELLE: Full of weeds?

MR. BLACK: To a great extent over-run with weeds.

COMMISSIONER MURRAY: I was very much impressed by the way some of your men are following up the people who come in. About how long are they under your protection, so to speak?

MR. BLACK: If we follow them properly for two years we perhaps should not have to pay much attention to them in the third, but where we find it necessary, we do. There are people who have to have a little more attention and a little longer time devoted to them than others. But we do actually follow them because we consider it is to our advantage for them to succeed; we won't get our value

out of them unless they do.

COMMISSIONER LEMAN: Do you keep a record of the financial improvement on the part of the men in whom you are interested? Take a man that you placed on a farm five or six years ago; do you check up on exactly what he possesses a few years afterwards?

MR. BLACK: We have not done that systematically.

COMMISSIONER LEMAN: That is extremely interesting. I have seen a record that was prepared by Mr. Powell of the Weyburn Security Company and placed before a committee of the legislature here in 1923. It showed what the man had when he came in and what he had a few years later, and the record was remarkable for the improvement shown.

MR. BLACK: The closest we have come to that has been work with which Dr. Murray, I am sure, is quite familiar, namely the comparing of communities in which there are people seventy per cent of whom are from continental Europe; we have given encouragement to whole communities by comparing one with the other in all the aspects of settlement that relate to citizenship -- education, agriculture, public health and so on.

THE CHAIRMAN: Thank you, Dr. Black. You will file the statement to which you have referred?

MR. BLACK: Yes, in a day or two.

THE CHAIRMAN: Sir Thomas, we will have your statement now.

SIR THOMAS TAIT: Mr. Chairman, you might think from this portfolio that I have come here to make a speech, but quite the contrary.

THE CHAIRMAN: We shall be very glad to hear you, Sir Thomas.

SIR THOMAS TAIT: I have not any speech to make, sir; my pamphlet, I think, covers the matter fairly fully. It is needless for me to say that personally I have no axe to grind; I do not hold a brief for either the Canadian National or the Canadian Pacific.

I think it goes without saying -- perhaps I might make a few observations?

THE CHAIRMAN: If you will.

SIR THOMAS TAIT: It goes without saying that this Commission in making its recommendation will do so regardless of political parties and politicians -- I use the word "politicians" as distinguished from statesmen; unfortunately we have a number of the former in every country -- and also regardless of the views that may be held in certain sections of the country and by a proportion of our people. I take it that any recommendation this Commission may make will be that which commends itself to its best judgment, but that on the other hand if a recommendation can be made to which there will be less antagonism in any part of the country or by any section of the people than there would be to some other recommendation equally good, the Commission would give the preference to the former. This is simply by way of prelude.

I am credibly informed that in the western provinces there is a very strong feeling against turning the Canadian National over to the Canadian Pacific, and that on the other hand in parts of the country, particularly in the east, there is a strong feeling against turning the Canadian Pacific over to the Canadian National. I have expressed the opinion here -- I hold it very firmly and have held it for a number of years -- that as it is

impossible under existing conditions, as it has been in the past, to increase rates and fares, in other words revenue for services performed, the only way to square the ledger would be to go to the other side of it and reduce expenses. I am convinced that adequate savings to meet the situation can be achieved only by a merger of our two great railway systems under one administration and with one financial identity.

Doubtless you will obtain from the presidents of the two corporations an estimate of the savings that can be effected by coordination and cooperation as compared with those that could be brought about by merging the two companies under one administration and with one financial identity. As there is more or less opposition throughout the country to turning the Canadian National over to the Canadian Pacific or turning the Canadian Pacific over to the Canadian National, and no doubt a considerable feeling about merging the two, it would seem that if the two first objections are to be overcome the only way would be to merge the two companies together under another newly formed company.

I do not know, sir, that it is necessary for me to cover any further the matter that is in this pamphlet; it speaks fairly well for itself. There are perhaps one or two points in regard to which I might give the reasons for my suggestions.

I do not want to take up your time unnecessarily in any repetition of the matter set out in my pamphlet. I am strongly of the opinion that the method I have suggested is the only way of obtaining satisfactory financial results on our railways. As I have indicated,

in my view the simplest way and the one which will incur the least criticism would be the operation of the two systems under a separate company. My suggestion is that that company, on the basis of whatever authorized capital you might deem it wise to fix, should issue stock to the citizens of Canada, preferably in the form of \$10 shares, so that every man, woman and child could have some of it -- as you know, in England we have the one pound and the two pound share -- and that that stock should be distributed as widely as possible from one end of the country to the other, among all our institutions and among all classes of the community, so that they would be interested not only in the efficient and independent administration of these railways but also in their successful financial operation. The dividend, which would be guaranteed -- I am not attempting to cover the whole scheme; it is all set forth here -- to both the citizen shareholders of this company and the Canadian Pacific shareholders, would in the event of satisfactory financial results be increased, so that tens of thousands of citizens, I would hope hundreds of thousands, would be interested in seeing that these railways are efficiently and independently administered. Over and above that certain increase in the dividend I think it would be only fair that any surplus should go back to the Dominion government to recoup them for the enormous expenditures they have made in the past in subsidies, in meeting deficits and so forth.

THE CHAIRMAN: Do you take into account the extent of the relief that the plan would afford to the Dominion in respect of the financial obligations from which it

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Sir Thomas Tait cannot escape, for example the debentures held by the public?

SIR THOMAS TAIT: I consider that the heart of the matter, sir.

COMMISSIONER LEAMAN: In other words, the economies would relieve the government of what it has to pay out directly?

SIR THOMAS TAIT: I have shown in this table, sir, at the back of the report what the effect of a ten per cent saving in working expenses would be.

(Page 2161 follows)

THE CHAIRMAN: I have not had the opportunity to read it at all.

SIR THOMAS TAIT: I am sorry. You do not want me to cover it all, then? I have shown in the last page, sir, what the effect of a ten per cent saving in the working expenses would be in what I would call a normal year--the average for 1929, which was a good year, and 1930, which was a poor year. I have shown what the effect of a ten per cent saving in the working expenses of the Canadian Pacific and the Canadian National on the average would be. I have also shown what a 15 per cent saving would be. If we include all the advances of the government, representing the deficits and interest charges, and the charges representing the deficits in working expenses, and the 100 millions charged for the Canadian Northern, when it cost the Dominion government only ten millions, and all the so-called obligations to the government, a 15 per cent saving, as I have said, would result in a surplus of \$5,893,990, as against a deficit of \$53,454,817. A ten per cent saving in these two years on an average would have made a deficit of \$13,828,946 instead of a deficit of \$53,454,817. But if the advances made by the government be reduced to those that represent assets, even if they be unproductive assets, there would have been a surplus on the average of those two years to the extent of the ten per cent saving.

SIR JOSEPH FLAVELLE: May I interpose for a moment? So far as the government accounting is concerned, the 100 millions is carried at ten millions. For some reason or other the railway company has chosen to carry in its balance sheet the Canadian Northern common stock at its par value of 100 millions.

SIR THOMAS TAIT: I learned of that, Sir Joseph, with some surprise, a short time ago.

SIR JOSEPH FLAVELLE: As far as the Department of Finance is concerned, it is carried at ten millions, which was what the government paid for the 600,000 shares outstanding.

SIR THOMAS TAIT: And the Canadian National have carried it as 100 millions in their accounts. These figures that I have given assume it to be 100 millions.

COMMISSIONER LEMAN: So you increase the debt owing by the C.N.R. to the government?

SIR THOMAS TAIT: I have taken the Canadian National figures, which they give in their annual report.

COMMISSIONER LEMAN: They are not the government figures.

SIR THOMAS TAIT: They are not the government figures. I have taken the Canadian National figures; and the deficit is swelled by the interest on 90 million dollars.

SIR JOSEPH FLAVELLE: Of course, there is really no making up of the deficits. No interest is accrued on the 403 millions invested in the Intercolonial and other government railways. There is no interest accrued by the government on the 604 millions of loans owing by these lines, though interest is accrued on the books of the railway. There is nothing charged---

COMMISSIONER LEMAN: On what?

SIR THOMAS TAIT: Interest on the Dominion government advances?

SIR JOSEPH FLAVELLE: On the 604 million dollars.

SIR THOMAS TAIT: In 1930 it was 32,693,000.

SIR JOSEPH FLAVELLE: As far as the government public accounts are concerned, there is no interest charged on these loans. It would greatly swell the amount.

SIR THOMAS TAIT: By how much?

SIR JOSEPH FLAVELLE: By 32 million dollars in 1930.

SIR THOMAS TAIT: Taking the Intercolonial in?

SIR JOSEPH FLAVELLE: No. Taking the Intercolonial and other government railways in would make another twenty million dollars.

SIR THOMAS TAIT: Thirty-two millions?

SIR JOSEPH FLAVELLE: Yes. But these are not included in the statements that are given as to what the railways are costing. The investment in the Intercolonial system amounts to \$132,748,305 and it has always been looked upon as a part of the confederation pact. The building of the Transcontinental has cost another 169 millions. I do not think there has ever been any interest charged on that amount.

SIR THOMAS TAIT: I am not aware of that one way or the other.

SIR JOSEPH FLAVELLE: Investment in road and equipment has increased the sum to \$403,941,000 and I do not think there is any interest on that sum, is there, Mr. Yates?

MR. YATES: No sir; neither by the government nor the railway.

SIR JOSEPH FLAVELLE: They have never charged interest and I think I am right Mr. Yates, when I say that there is no interest charged on that \$604,000,000 of loans, either.

MR. YATES: No sir, not by the government.

SIR JOSEPH FLAVELLE: So that between the \$604,000,000 and the \$404,000,000 you have \$1,008,000,000 that the government has put into the enterprise on which there is no charge of interest, and notwithstanding that the deficit this year will be \$57,000,000 or \$58,000,000.

SIR THOMAS TAIT: Probably more. May I ask if that is \$1,008,000,000 or \$1,006,000,000?

SIR JOSEPH FLAVELLE: A billion and eight millions.

SIR THOMAS TAIT: The billion and eight millions on which you have no interest charges is in addition to the \$32,692,000?

SIR JOSEPH FLAVELLE: The \$32,000,000 was the interest accrued in 1930 on the books of the railway, the 604 millions of loans by the government, and the interest would be on the Intercolonial.

SIR THOMAS TAIT: That \$32,000,000 represents interest on what?

SIR JOSEPH FLAVELLE: On the \$604,000,000 only. To add the \$20,000,000 of interest on the \$404,000,000 invested in the government lines, if you are following that transaction----

SIR THOMAS TAIT: Would make it \$52,000,000.

COMMISSIONER LEMAN: Does that take into account the section of the Transcontinental which is in the eastern lines?

SIR JOSEPH FLAVELLE: It takes in the entire cost of the government lines including the Transcontinental from Winnipeg to Moncton, \$169,318,000.

COMMISSIONER LEMAN: So it is all in these loans?

SIR JOSEPH FLAVELLE: No; the loans were to the former companies. The 404 millions takes in \$169,000,000 for the National Transcontinental; it takes over this whole field of small lines that were started for various purposes, chiefly in the east, and which through one cause and another the private stockholder or the individual stockholder or the bond holders passed over to the care of the Dominion authorities. More than four hundred million dollars have gone into the enterprise, and it has since grown into \$404,000,000. There has been an addition to that I suppose of the road in which our French Canadian friends are interested.

COMMISSIONER LEMAN: The Quebec, Montreal and Southern?

SIR JOSEPH FLAVELLE: Yes. The government paid \$6,000,000 for it. Now, all those various items have grown into \$403,000,000. There is no charge for interest in the figures that you have seen, so far as the government is concerned.

SIR THOMAS TAIT: No.

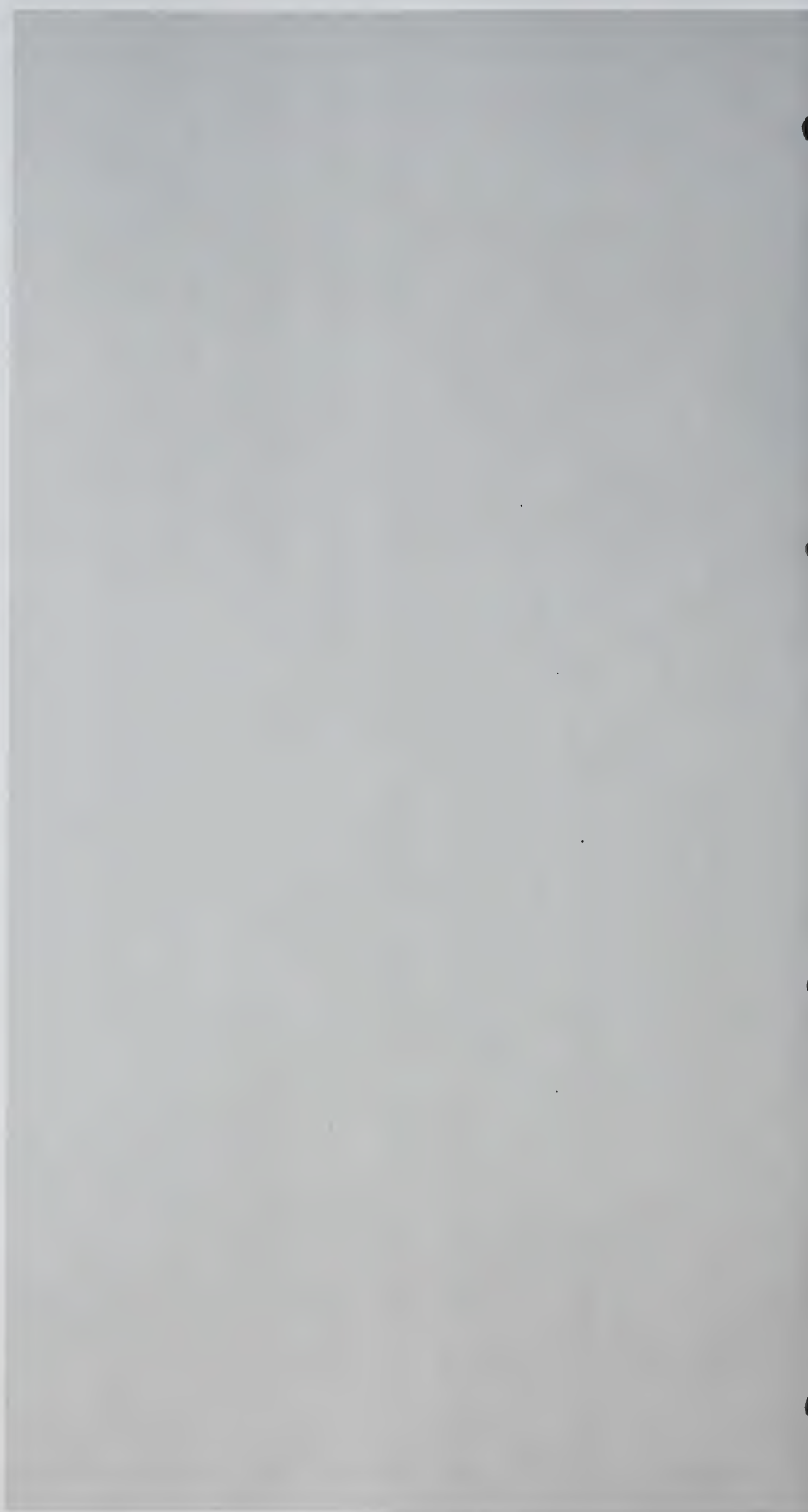
SIR JOSEPH FLAVELLE: No charge on the \$400,000,000 of loans. The interest due on the securities held by the public is now \$1,475,000,000, and that is what is called the fixed charges.

COMMISSIONER LEMAN: Does it include deficits from year to year on the Intercolonial?

SIR JOSEPH FLAVELLE: I do not think so.

MR. YATES: No, they are not included.

COMMISSIONER LEMAN: What are those deficits that you are speaking of?



SIR JOSEPH FLAVELLE: There are about \$7,000,000 on the eastern division, and then there is the Mercantile Marine, which is part of the same situation. Now, when we speak of there being a shortage this year of \$57,000,000, that is just interest due to the public. It does not deal with the \$7,000,000 loaned to the Intercolonial; it does not take into consideration the eastern lines, and it does not deal with the Mercantile Marine.

COMMISSIONER LEMAN: Is it not ten instead of seven?

SIR JOSEPH FLAVELLE: I thought it was seven.

COMMISSIONER LEMAN: I think it is ten.

SIR JOSEPH FLAVELLE: You have taken the railway figures. Those are not the figures with which we were dealing.

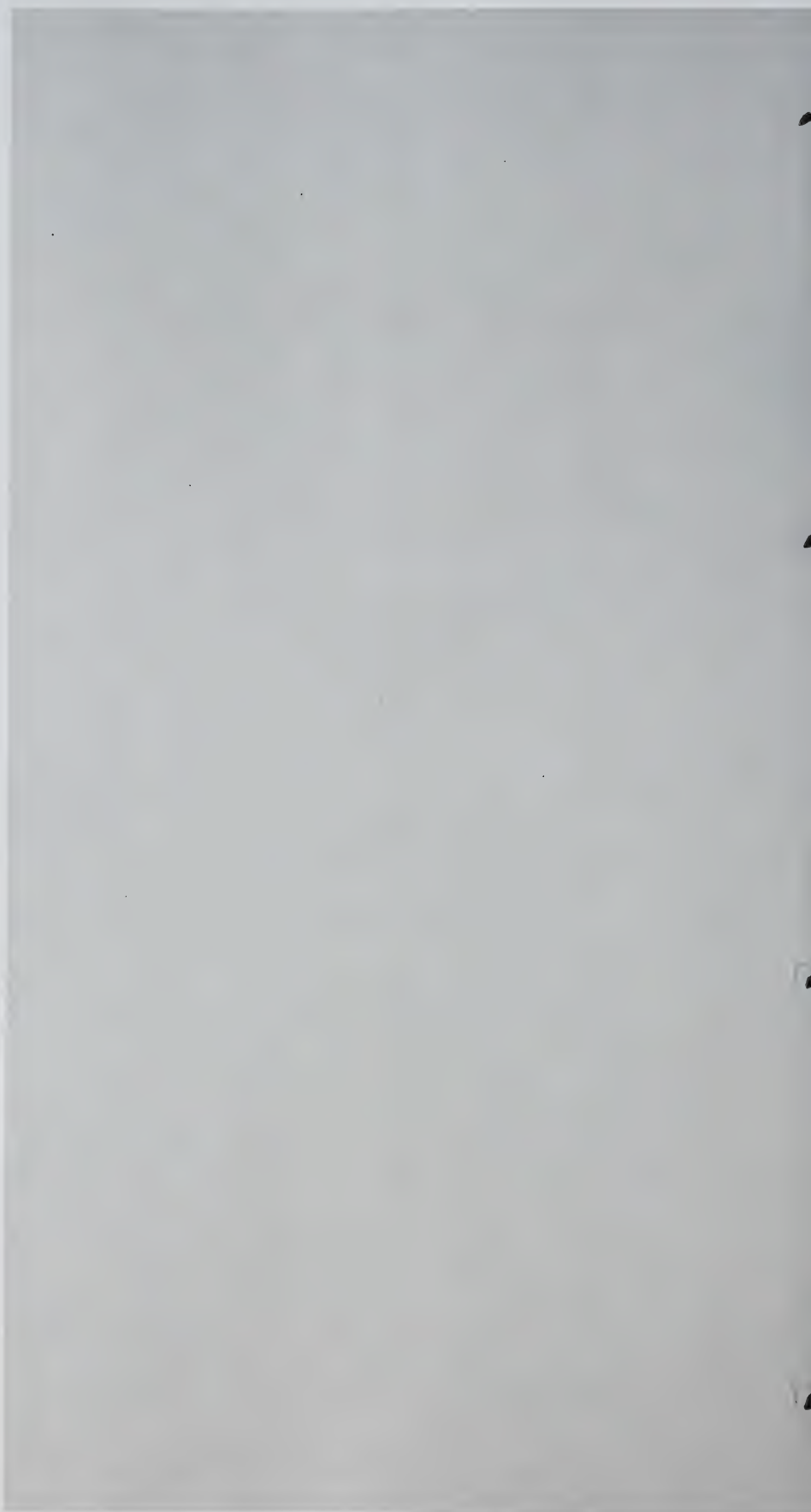
SIR THOMAS TAIT: Those are the only figures that were accessible to me, but they were bad enough.

SIR JOSEPH FLAVELLE: Those are worse.

SIR THOMAS TAIT: Those are much worse.

SIR JOSEPH FLAVELLE: One is not thinking of competition as anything other than an unlovely thing.

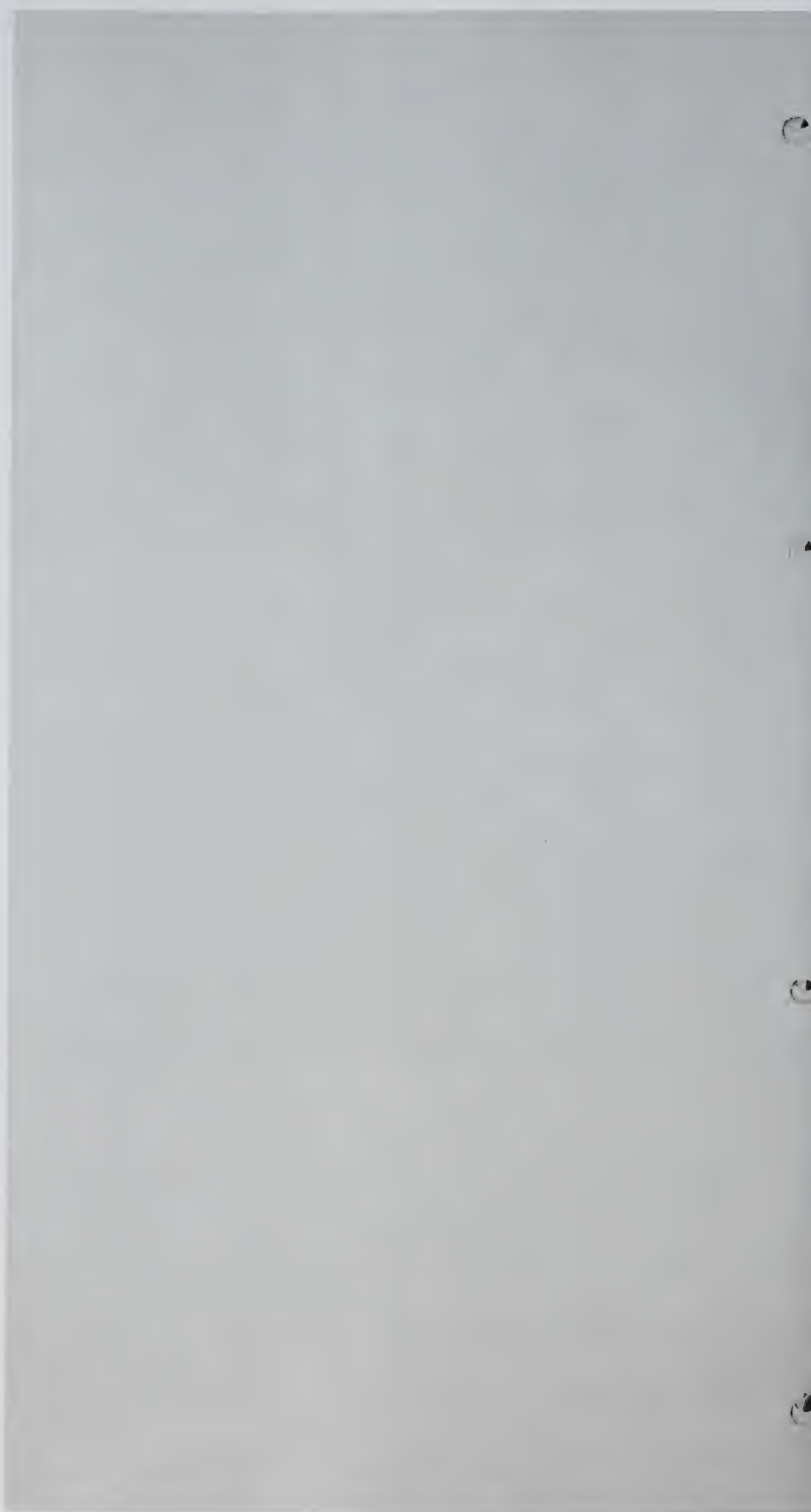
SIR THOMAS TAIT: On that subject I may say, sir, perhaps some of you will agree with me, with unreasonable regulations, competition is perhaps largely responsible for the state of affairs in the world to-day. Competition between railways, to my knowledge, is perhaps the most conservative of any. If you are a manufacturer producing goods, and the price falls below what you can produce them for, and the demand is not sufficient, you can shut down part of your factory; you can reduce the output



but with the railway, it must go on. You must maintain your lines, and you must give some service. You may be able to reduce it for traffic, but you must keep it going to a certain extent, and to quite a large extent.

SIR JOSEPH FLAVELLE: Take, for instance, the difficulty we are experiencing in Canada on account of having an extra transcontinental line that we do not need, consisting of 5,000 miles of road. Under a unified system, one of the economies of importance would be the elimination of duplications. It is much more difficult to effect that now than it was in the past, owing to the establishment of towns and villages along the right-of-way, and the political agitation that will arise if the administrators of the railways attempt to carry out a policy which would effect the desired economies---among others that of getting rid of duplicate lines---would create a first class situation. It is only during recent years that the query has arisen: is there a feasible arrangement, having regard to politics not from the standpoint of party politics, but in the broader and larger sense, namely, the national interest? If the folly that has characterized the competitive relations between the two roads in an extreme degree were replaced by some greater understanding in all their relations and co-operative methods inaugurated, in your judgment as a railway man, would it be possible over a course of years to take care of the unfavourable condition in which we find ourselves?

SIR THOMAS TAIT: well, Sir Joseph, I am not a prophet. But this situation seems a very urgent one at the present time, and will be for a number of years to come. You will have, no doubt, as I have said, ascertained from



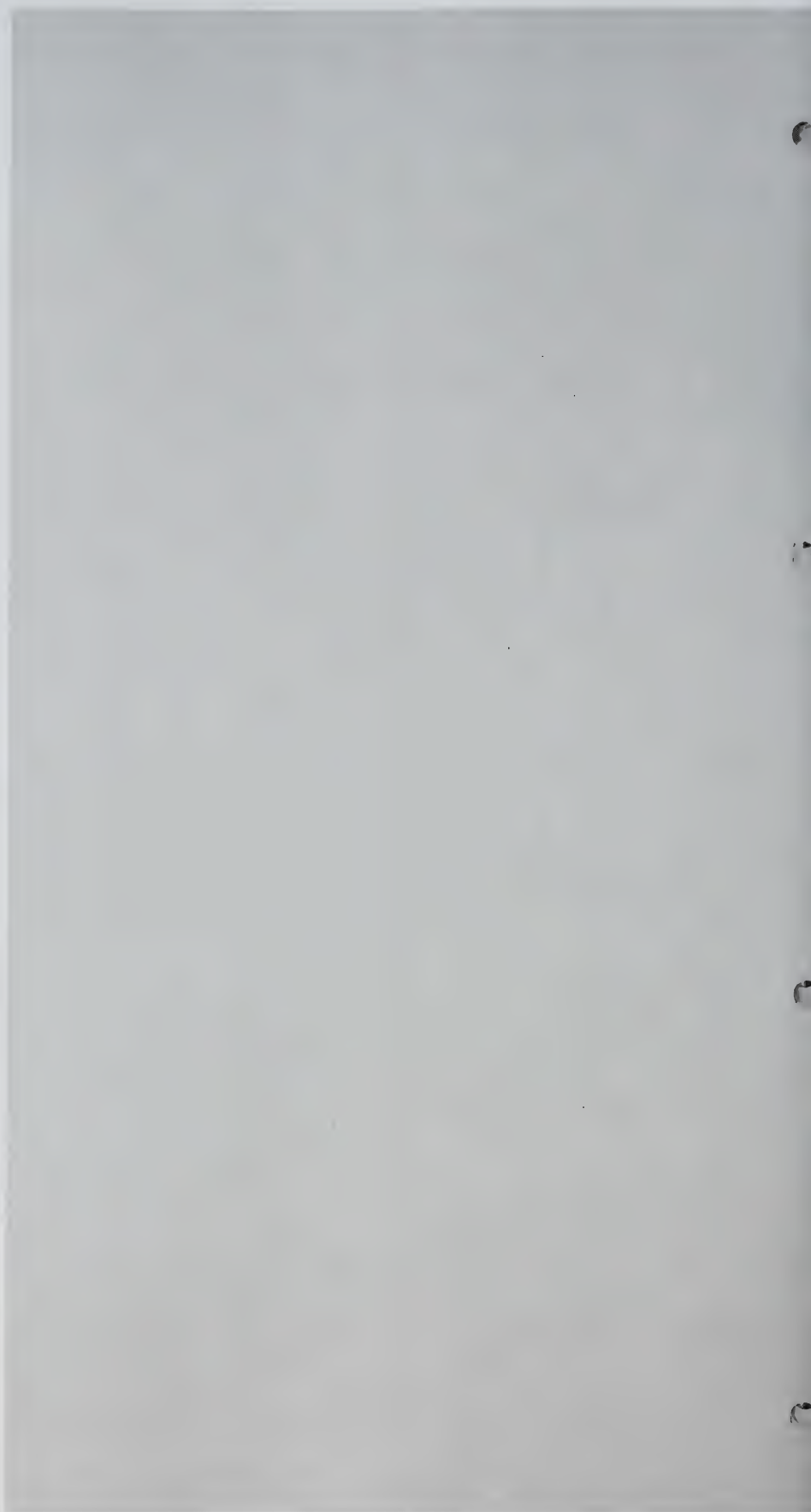
Sir Henry Thornton and Mr. Beatty what savings they could expect to achieve by co-ordination and co-operation, what savings could be achieved by a merger into one financial entity. A comparison of the two will, I am satisfied in my mind, from what I have heard, show you that the cure for many years to come, the escape from this very serious situation, is a merger, and not by co-ordination and co-operation.

You have referred to the abandonment of lines. I am not very hopeful myself that much can be effected in that way. Vested interests have grown up along existing lines, and it would be very difficult indeed to abandon them. They might be utilized for purposes in some cases where there is a duplication, but I myself do not look for great relief in that direction.

COMMISSIONER LOREL: You are facing a situation that may involve destruction unless this problem is solved.

SIR THOMAS TAIT: A very serious situation. I think the outlook for Canada is very serious indeed unless this large cursed sore on our finances is immediately cured. It can be cured---not all at once, but there can be certainly very large savings effected within a very short time, without any disadvantage to the public largely. There can be large internal savings effected.

COMMISSIONER LOREL: I am going to mention a matter of which I have made a study, and that is light traffic, and the ton-mileage on different lines. In Canada it does not differ materially from the situation in the United States. About half the ton mileage is handled on about 9½ per cent of the mileage. Our feeling over there



is that a road which handles less than 250,000 ton miles a year cannot be made self-sustaining. Forty-two per cent of the mileage in Canada handles less than 250,000 ton miles a year.

Now, I just had a boy who was operated on for appendicitis. That was heroic. He went in there alone and had his appendix taken out, which was broken; and something of that kind has to be done in Canada.

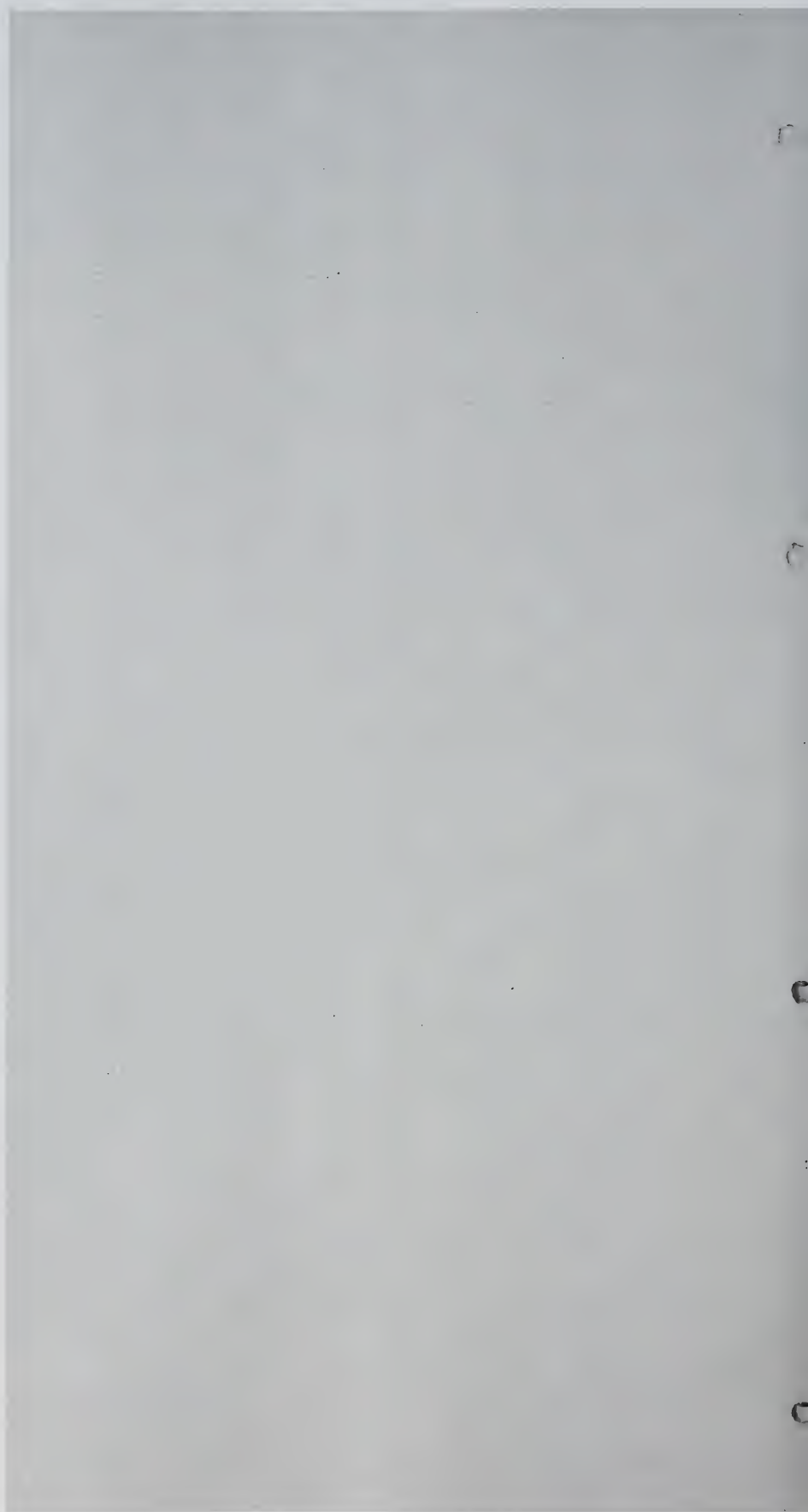
SIR THOMAS TAIT: I think you have to perform a major operation here; but as to the abandonment of lines, well, some savings can be effected in that direction, but I would be very hopeful, if those two lines were put together, it would not be necessary to abandon many.

COMMISSIONER WEBSTER: How do you look for this saving?

COMMISSIONER LOREE: Now, take another experience of ours. In 1913 the Delaware and Hudson employed men to the extent of 32,263,000 man hours. In 1930 the man hours were 26,689,000. That was a reduction of about 10,000,000 man hours. In a reduction of about 10,000,000 man hours or 25 per cent, how do you think it would help in an economy move? Having got rid of 25 per cent of the labour, one would think that it would result in more economy. What was the result? In 1913 we paid out in wages \$9,475,000. In 1930 we paid out \$20,222,000; so that notwithstanding we worked 25 per cent less man hours, we increased our wage bill 113 per cent, and paid out \$10,747,000 more.

SIR THOMAS TAIT: In the meantime, you had a man who aspired to be president named McAdoo.

COMMISSIONER LOREE: You felt his influence here?



SIR THOMAS TAIT: We certainly felt his influence.

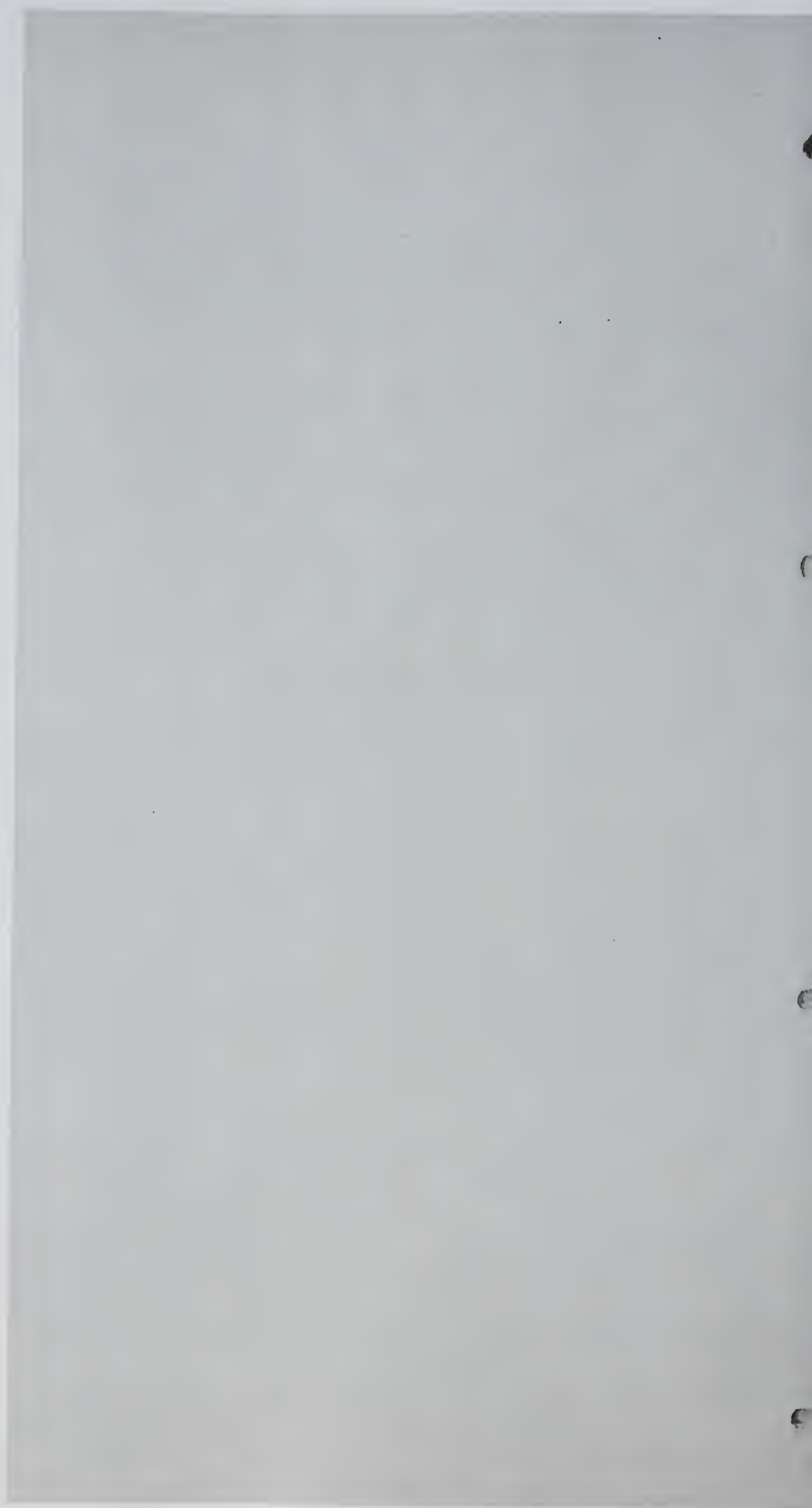
COMMISSIONER LOREE: That is what you are facing to-day. You are facing the same result that most of us faced.

SIR THOMAS TAIT: They are facing the same result in Australia. After I left there, they set up a commission to fix the wages--a federal commission, if you please, although the railways are owned by the States--of railway employees among others, who had no responsibility for the results on the railways.

COMMISSIONER LOREE: What I am wondering is whether this plan of yours, which certainly has been very carefully thought out, or any other plan that has been suggested, offers any hope unless we can change the attitude of the government towards all these questions.

SIR THOMAS TAIT: I would endeavour to formulate some scheme, if I may be permitted to say so, where the attitude of the government would not have any influence; that is, a political government.

SIR JOSEPH FLAVELLE: But, Sir Thomas, let us look at it from the standpoint of the kind of sense that we develop in the years as they go by. Parliament has the final determination insofar as the expenditure of money is concerned that is involved in those railways. Parliament, up to the present, has made no contribution of a critical aspect towards the expenditure of those great sums of money. You could hardly place your property in a body of trustees of one parliament that the next parliament may not set aside. There is no continuity. I am not making light of the plan. Neither you nor anyone else can determine



what one parliament will do with the legislation which a previous parliament put into effect.

Now, if we have a policy which arouses great opposition, or which is likely to arouse great opposition ---that is one of the factors that will be before the minds of the commissioners---

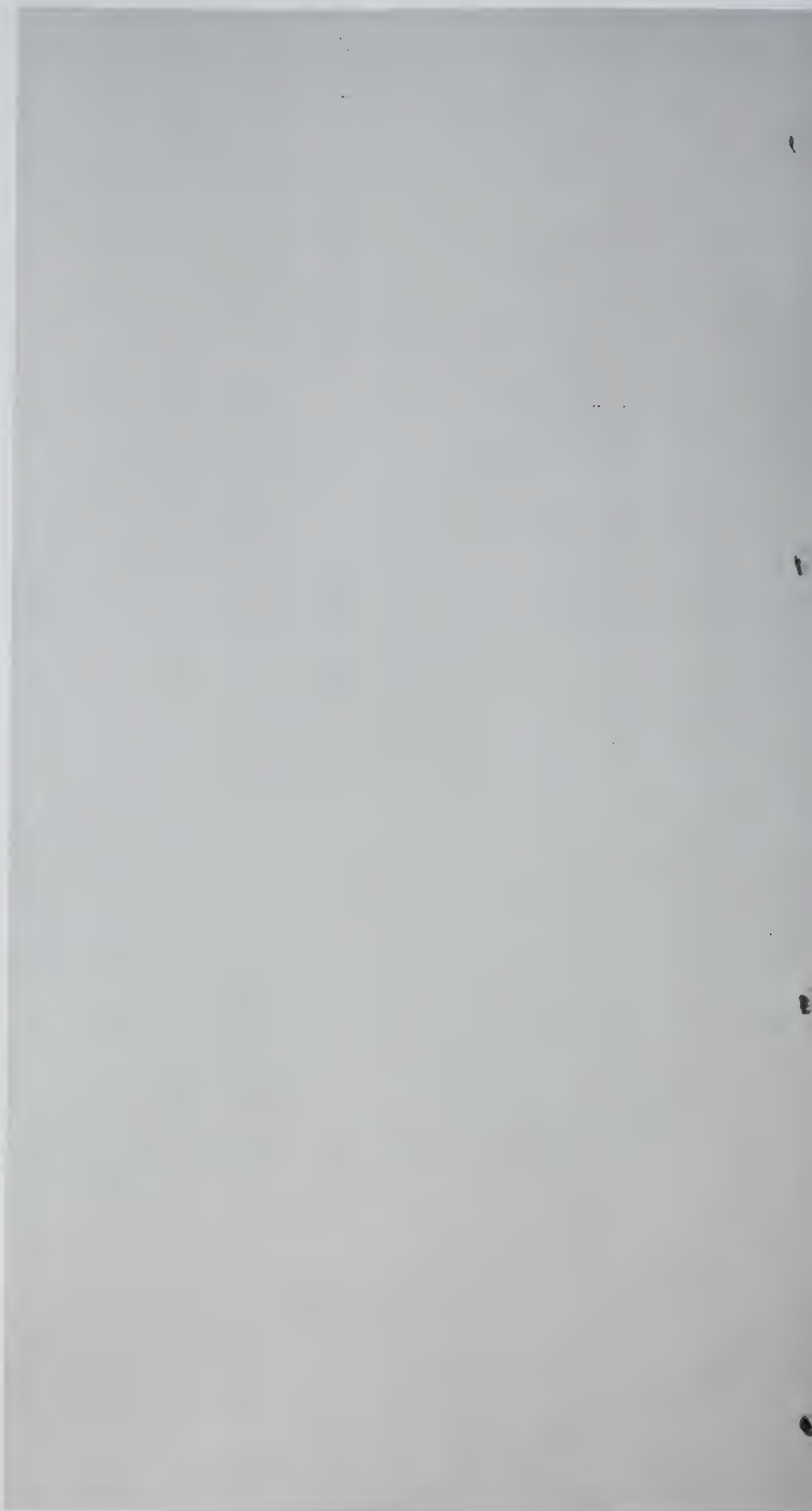
SIR THOMAS TAIT: Before the minds----

SIR JOSEPH FLAVELLE: Of the commissioners. It is for the commissioners themselves to take it in. I am not speaking on behalf of anyone but myself in that regard. It is the type of thing that good sense will show, not only to have the courage--there is really not much difficulty in being courageous to-day, particularly when somebody else has to pay for the heroics. It is that quality of good sense, judgment and wisdom in a national emergency that we want, which will show us what the feasible thing is, as well as the best thing, having regard only to the money side of it. That is to say, one can conceive of some superior group being selected and being told to do what you like and everybody would have to accept it. That is not possible in human society. We will not accept an overlord.

COMMISSIONER LEMAN: No, but financial conditions may force you to accept things which you would not accept otherwise.

SIR JOSEPH FLAVELLE: Yes.

SIR THOMAS TAIT: I think people in this country generally speaking, sir, are looking to this commission for a way out of the wilderness, and I believe---I am speaking for myself now, as if I were on the commission---



that I would be inclined to recommend the very best scheme that you can think of regardless--that is the reason I make this preliminary remark--of the views of sections of the country, or portions of the population, or of political parties or politicians. And I believe if such a scheme were put up to the government of the day, it would be easier for them to carry it through than to depart from it.

COMMISSIONER MURRAY: Destroy your government and you are worse off than you were before.

COMMISSIONER LEMAN: I do not know. It would not destroy the government. The government has a sufficient majority to put it through.

COMMISSIONER MURRAY: The government has to go to the country.

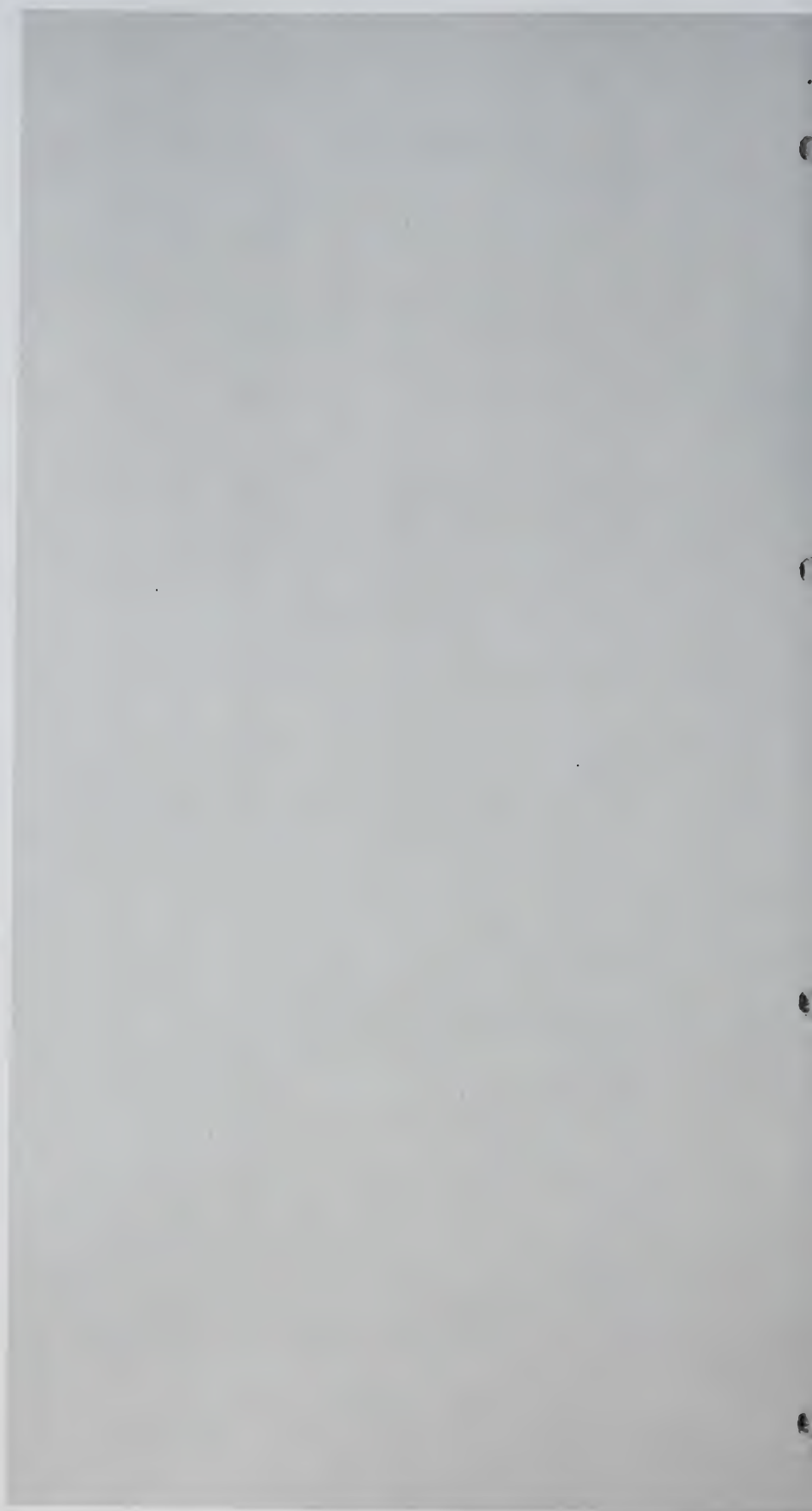
SIR THOMAS TAIT: Well, what is left?

COMMISSIONER LEMAN: You think, Dr. Murray, that the people of the country would rather see the government default than surrender a pet scheme of theirs? Have you come to that conclusion?

COMMISSIONER MURRAY: My own belief is that the people of the country do not realize the danger, and will not stand for it.

COMMISSIONER LEMAN: Pardon me; if that is the point, if you are facing a condition whereby you are drifting inevitably towards a condition--if that be the fact, I do not say it is, but if that be the fact, do you claim the people of the country would rather see their government bankrupt than abandon a certain scheme? I am just putting the question in the abstract.

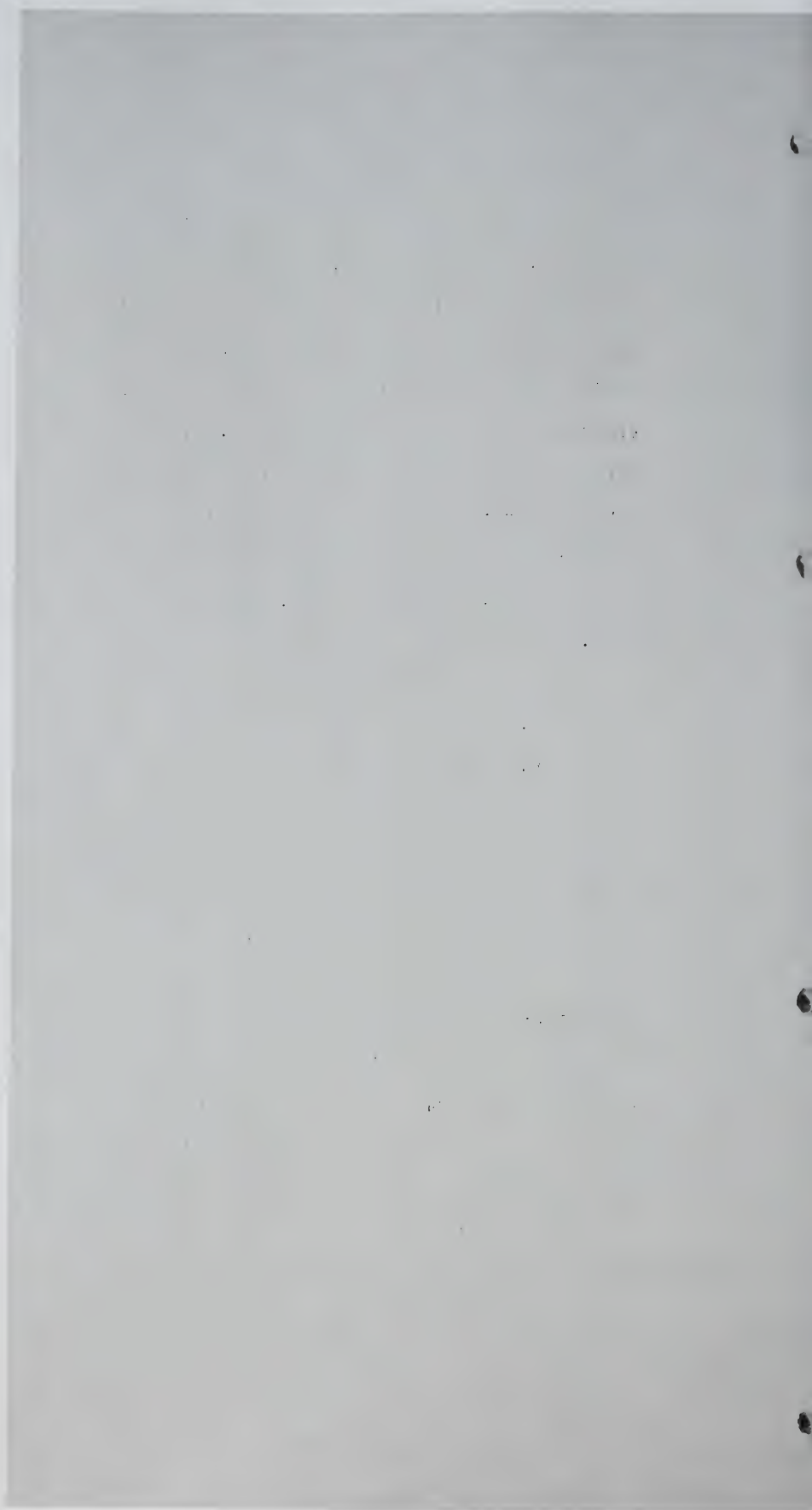
SIR THOMAS TAIT: Leaving this aside, now, the



constitution of the board, which, after all, is not in question. You have before you figures of what saving could be effected according to the estimates of Sir Henry Thornton by co-ordination and co-operation and what saving could be effected by a merger in one financial entity. I have not those figures. I have in my own mind, a figure, and if I should have misled you to some conclusion---it is not for me to impress you with the seriousness of the financial situation; it is much more serious, I think, than the public may know or we know. And as I say, I submit a major operation is needed.

SIR JOSEPH FLAVELLE: Supposing there is a major operation. There is another way of looking at a major operation, and it is from this standpoint; it does not come new to me, because I believe in 1921 when the advances were much less than they are now, it was the understanding that the National Transcontinental and the Inter-colonial should not be a charge.

Now, we have practically accepted it as a theory of operation--the government has accepted it at least--I won't say by deliberate plan, but by practice. They have not been producing a money return on the slightly over a billion dollars which they have in the railways by reason of the national Transcontinental and the eastern lines, and the 604 millions of loans. If the railway is to be operated as a railway alongside the Canadian Pacific under some method of co-ordination only, what would be the extent of the fixed charges that would be borne by the amalgamation? I am speaking of the fixed charges on the money due to the public, which is just about \$60,000,000



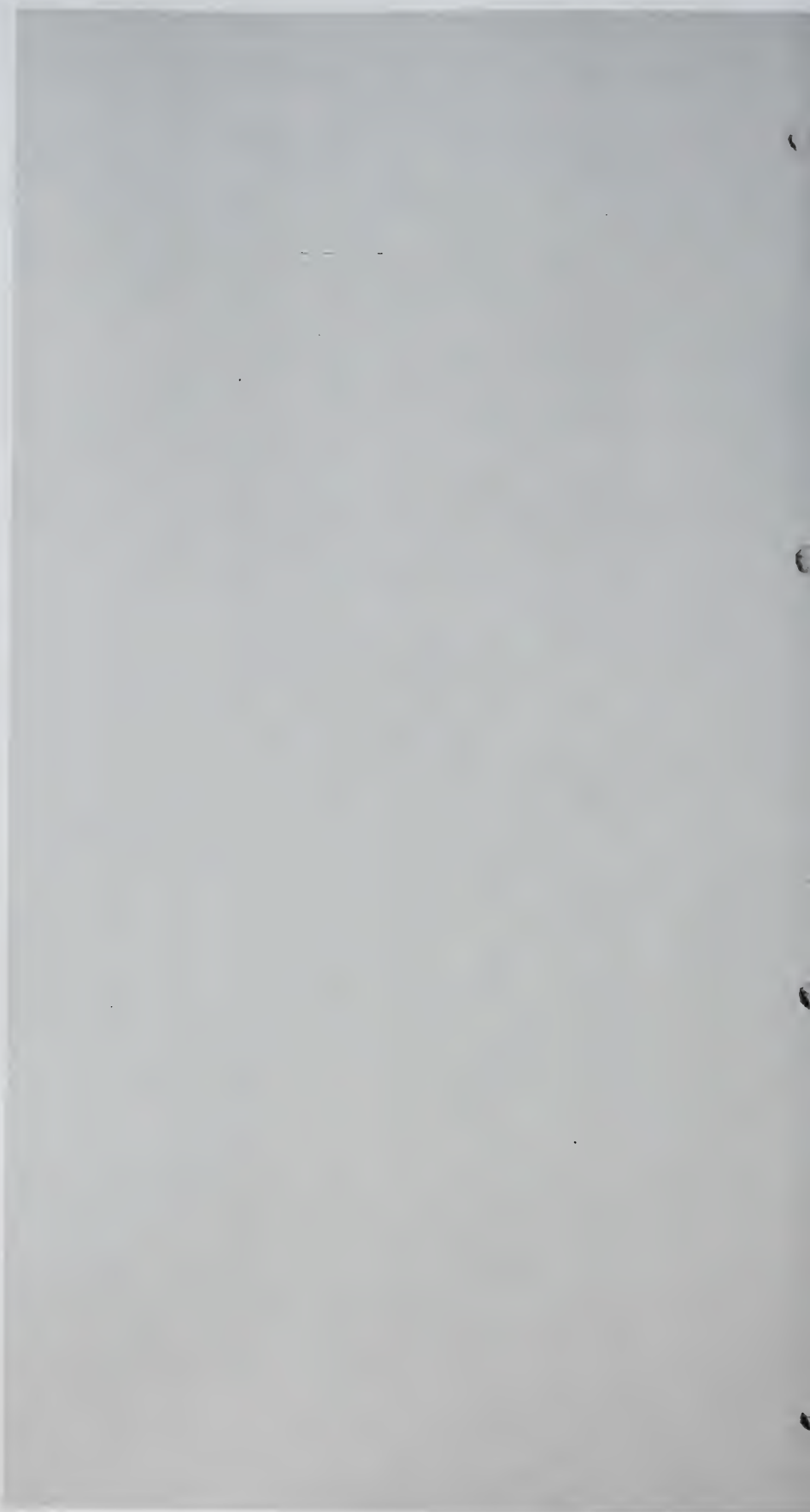
a year.

We are still two-and-a-half or two-and-a-quarter-years away from the condition in which the tonnage available and the business available was spectacularly greater than during the past year. One wonders, if one thinks in terms of five year periods, how many such periods there will be, before the available tonnage accrues in business operation where the main purpose of the administration of property is a sound, prudent judgment that comes from the business end of an enterprise, receiving its share of attention. Taking the alternative side of it, is it a feasible thing, and can it be done? Is it possible for us to overtake it, and in the meantime hold on? These are the difficulties with which we will have to struggle, in our deliberations.

SIR THOMAS TAIT: Well, sir, if you reduce the charges, wipe off the obligations of the Canadian railways sufficiently, you won't see anything like the same deficit, and in the course of years you may show that it is earning its interest on the obligations. But my personal outlook is that would be some time away, and in the meantime, we are going to face a rather desperate situation. I think myself that some of these obligations should be cancelled. They do not represent assets. I think it is fair that the railways should eventually earn a return on them, and I think in a merger they will.

COMMISSIONER LEMAN: Sir Thomas, did you average it?

SIR THOMAS TAIT: I have, for the moment---



COMMISSIONER LEMAN: The report is admirably prepared, concise and clear, but there are two points regarding which I should like to have your views. Do you think that amalgamation would be a burden? As we are concerned with the financial stability of the federal government, to place a burden of guaranteeing interest, not only on the property which they are already guaranteeing, but also on other property, do you concede that it would be an acceptable proposition to put up to parliament? By divesting themselves of the C.N.A., they would be assuming obligations and paying interest on another property.

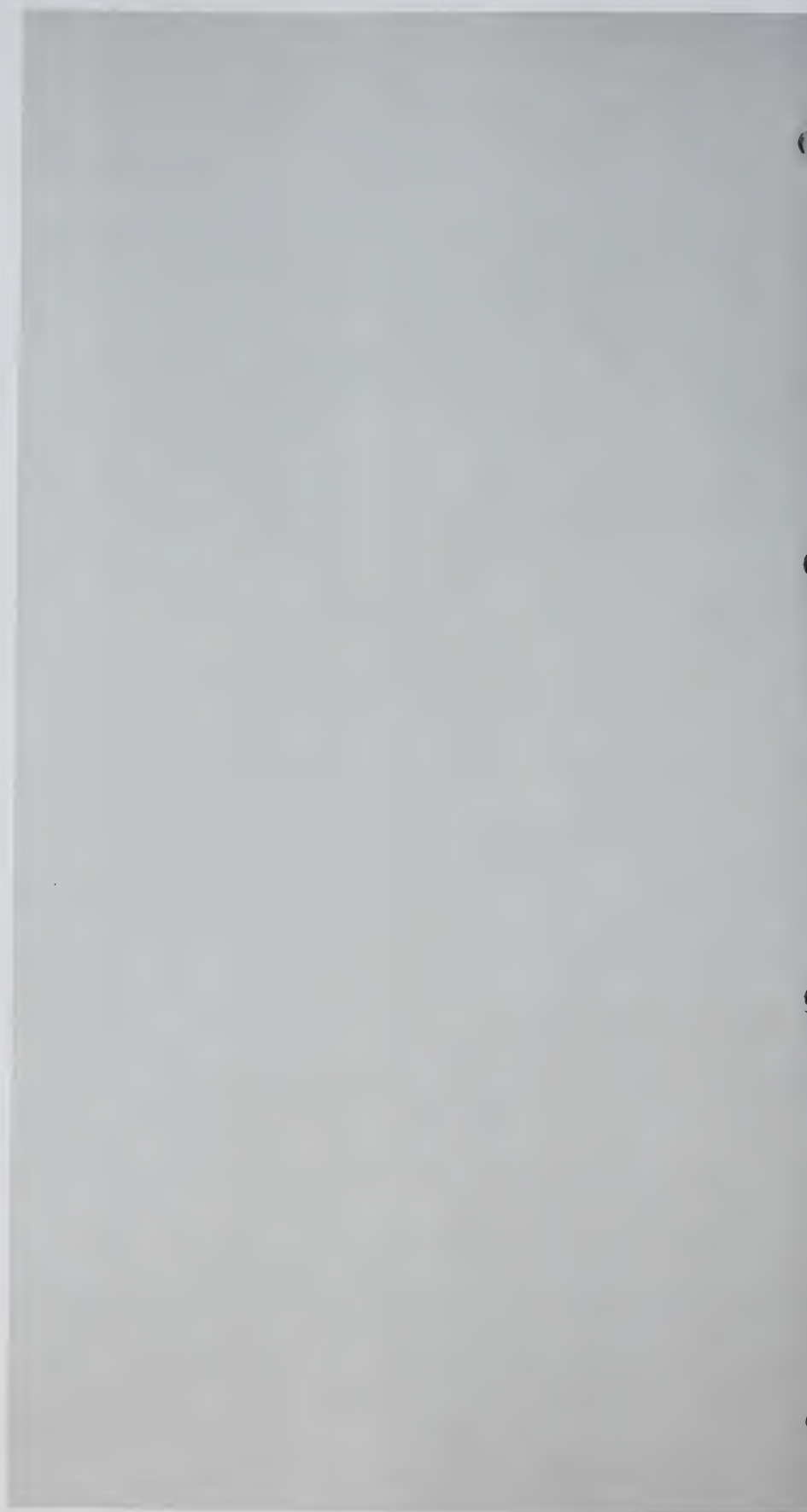
SIR THOMAS TAIT: Well, one buys a property for the return that it will bring. The Canadian Pacific is what you refer to, I presume?

COMMISSIONER LEMAN: That is, under your scheme.

SIR THOMAS TAIT: The Canadian Pacific, I understand, has a great earning power; 1931 cannot be taken as a criterion for any railway results. I think Mr. Loree will agree with me in that, and possibly a part of 1932. The Canadian Pacific has an earning power of itself, and that earning power will be largely increased if the two railways are put together, by the savings which can be effected on the Canadian Pacific. I think there was another question.

COMMISSIONER LEMAN: The other question is: what would be the chances of asking parliament to divest itself of the property of the C.N.A. and to guarantee the interest on both the C.P.R. and the C.N.R. properties?

SIR THOMAS TAIT: Well, the other alternative is



that they shall go on as they are, and not effect the savings in working expenses, which you gentlemen must be aware of can be effected by a merger, which certainly gives the two railways a greater earning power proportionately than they have separately.

THE CHAIRMAN: I suppose that is the postulate. I say that I have not had the opportunity of reading this, but I gather the postulate is there is no other alternative.

SIR THOMAS TAIT: In my opinion.

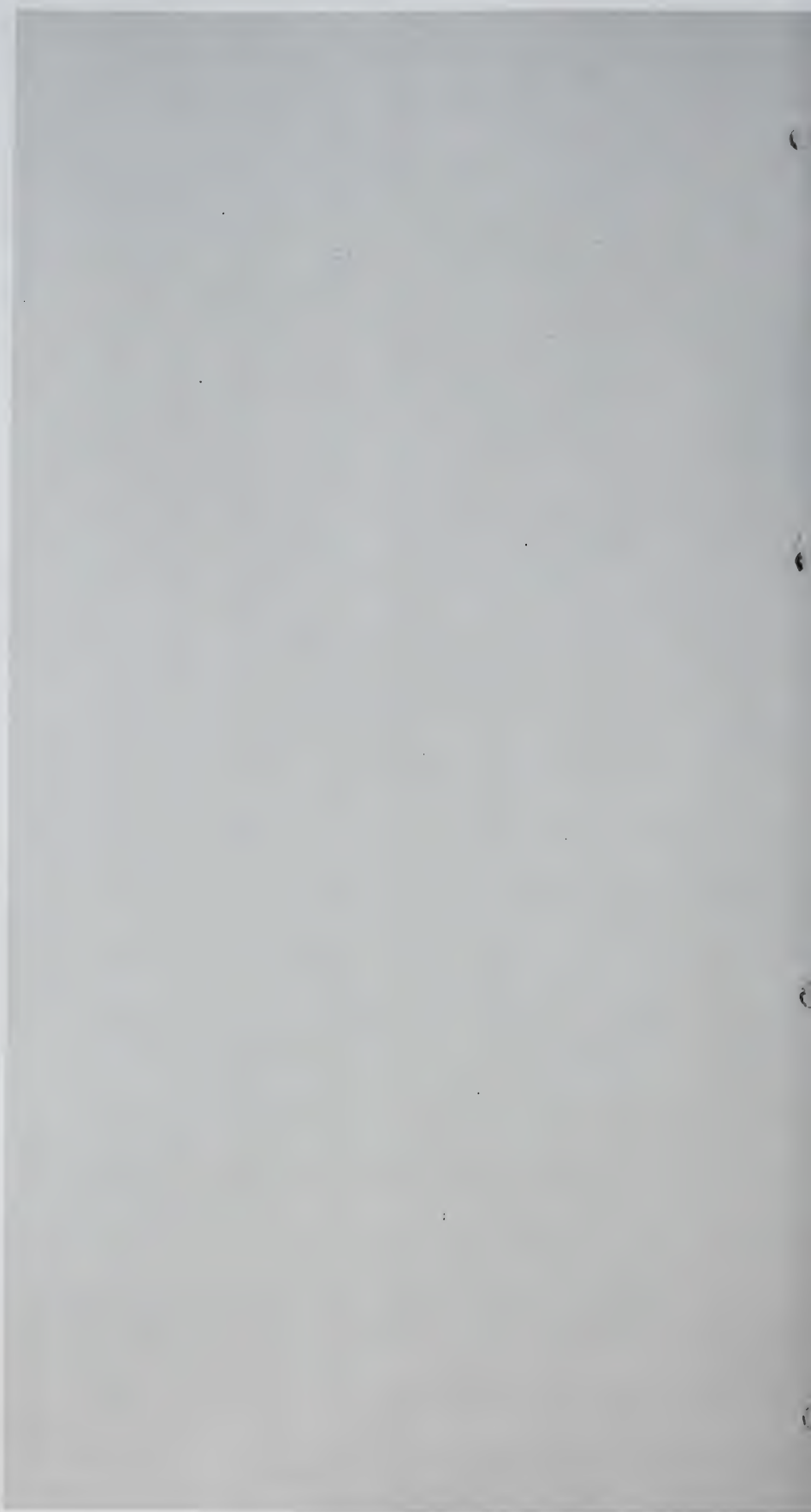
THE CHAIRMAN: Yes, quite so.

SIR JOSEPH FLAVELLE: In the light of the experience of the past eight years, have you thought of the possible economies that would be effected by the co-ordination of the two systems, as far as separate ownership would permit, and with a board of arbitration who had the power of parliament behind it, to whom they could go with any little differences that may arise between them?

SIR THOMAS TAIT: Pardon me, Sir Joseph---

SIR JOSEPH FLAVELLE: I am thinking of it in those terms; do you, from your knowledge of the administration of those railways, so far as you have had it under your consideration, believe there is, under separate units, with the introduction of sound business sense, wisdom, prudence and courage, likely to be the same economies as would come through a merger? It is a natural instinct for all of us who are in business to try, not from a political standpoint and in a narrow sense, but from the large political sense, to work out a feasible basis for carrying on, without having the next thing to a civil war on our hands.

SIR THOMAS TAIT: I freely admit, Sir Joseph, that



there would be practicable savings in earnings and expenses by co-ordination and co-operation. I, on the other hand, frankly submit that they would not be quite adequate to cope with the situation.

SIR JOSEPH FLAVELLE: It will be inadequate to cope with the situation.

SIR THOMAS TAIT: For many years, I fear.

SIR JOSEPH FLAVELLE: I do not know how many.

SIR THOMAS TAIT: Just leaving aside the question of necessity. As long as there is a separate financial entity, and separate administrations, the administrations must, and will endeavour to, secure its share of the traffic, and those systems parallel each other in many instances. They reach practically every important place in Canada; and they must, in their endeavour to secure a just share of the traffic, duplicate the services, and they do. As long as they are separate administrations and separate financial entities, you cannot get them to do otherwise unless you do it by legislation.

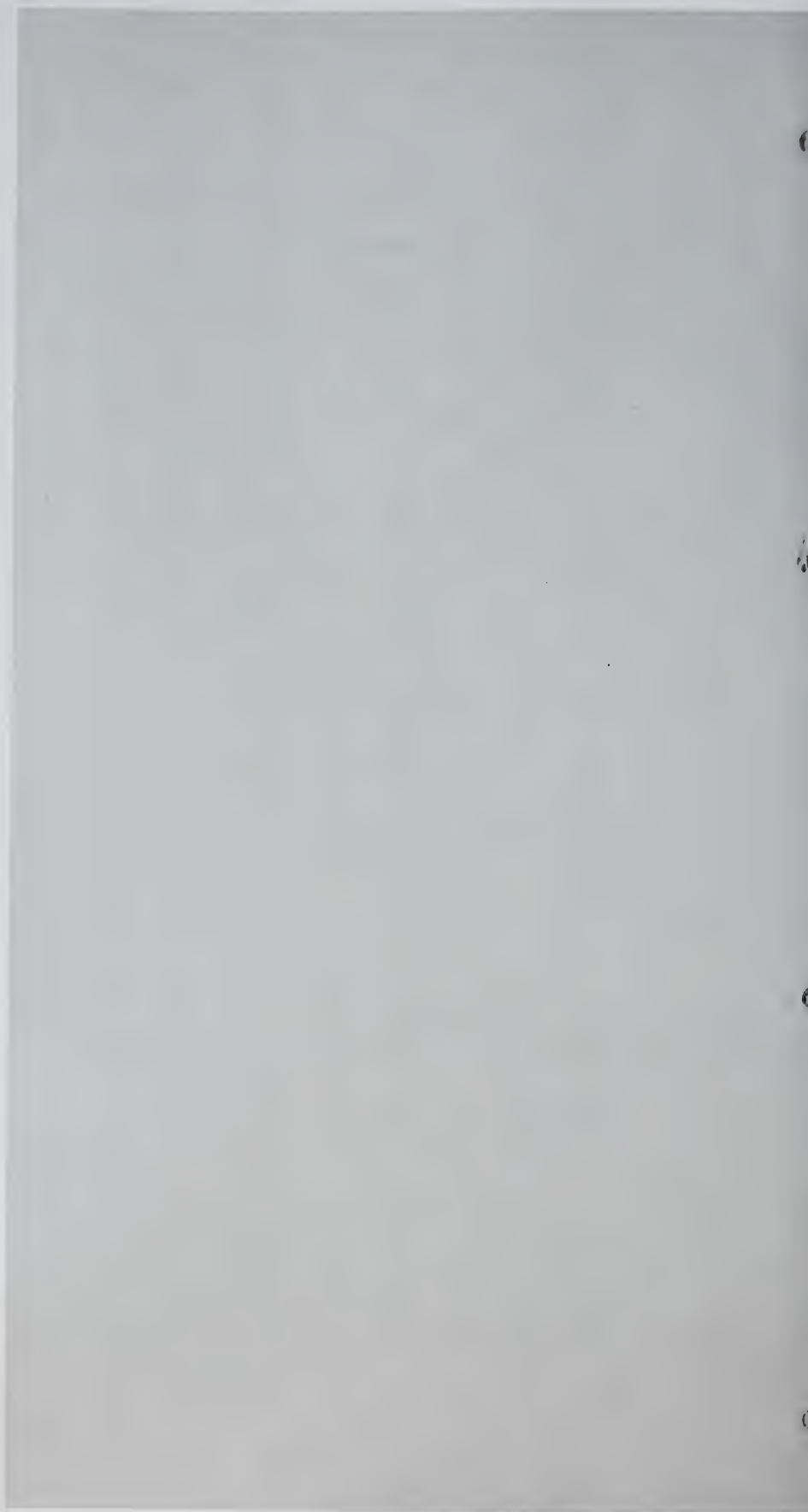
COMMISSIONER LEMAN: You cannot legislate them into competing and not competing.

SIR THOMAS TAIT: Sir Joseph referred to parliament as the financial adjudicator as to whether they were or were not co-ordinating.

SIR JOSEPH FLAVELLE: As long as the country is in possession of the property or is responsible for guaranteeing the property, parliament will be a reviewing body.

COMMISSIONER WEBSTER: Our concern to-day is in settling the problem for all time to come.

SIR JOSEPH FLAVELLE: Granted.

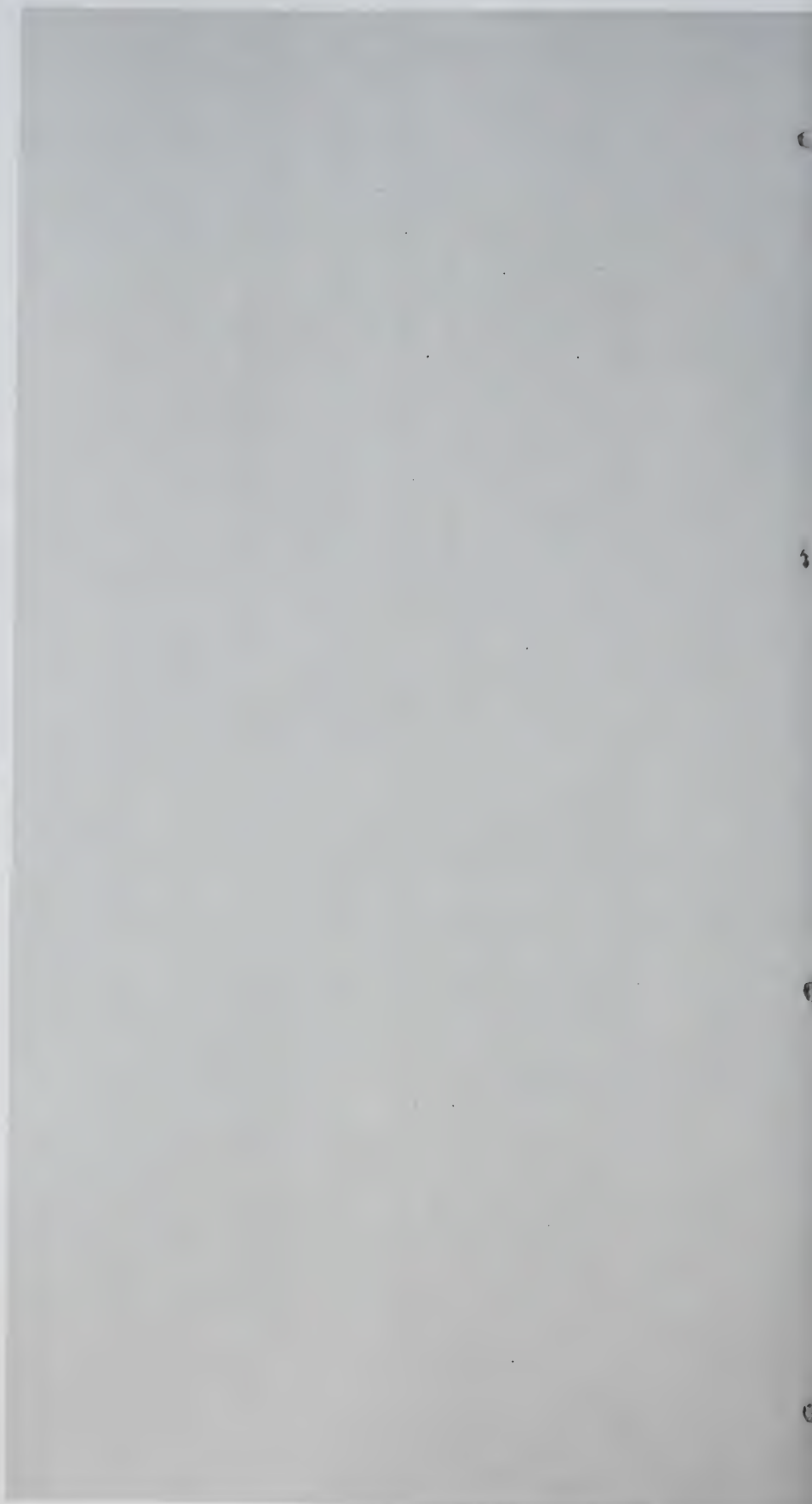


SIR THOMAS TAIT: I do not want to take up the time of the commission unnecessarily, but this is the way it looks to me. There are many details probably in this scheme that might be applied perhaps in your better judgment. I believe, and firmly believe, that the only way to cope with the situation to-day and for some years to come, anyway, until we have a very much larger population and affairs very much improve in the world, which I hope they will do, is to put those railways under some scheme so that there might be substantial and adequate savings in the working expenses.

Now, I tried to submit a scheme and my idea was to form a new company and put them in this new company, and that company to sell stock to citizen shareholders who would become interested in the efficiency and the telligent administration of the railways, and a contract between that company and the Dominion for a period of ten years, which would enable that administration to go ahead and operate these systems on a commission basis. I did have in mind an earlier scheme of reward for the directors and so forth, which would encourage them to do so, but I believe the class of men you would get would make that unnecessary.

COMMISSIONER WEBSTER: Where do you think your gross saving would be in that scheme?

SIR THOMAS TAIT: The gross savings, of course, would be in the operating department. Some of those savings could be effected without any disadvantage to the public. As Mr. Loree knows you can operate freight cars, for instance. You could have joint switching. It would be rather complicated, but still you can



accomplish it. But when it comes to service to the public, it would be very difficult to analyze. The loss of service to one would mean the business would go to the other, with a corresponding loss of revenue and loss of prestige. I have not the figures, Sir Joseph, As you understand, I have not got access to any books or figures except the annual reports of the two companies. But Sir Herbert Holt--I am not at liberty to say what Mr. Beatty may have told me or what Sir Henry Thornton may have told me--in his speech at the annual meeting of the Royal Bank, referred to the figure of \$70,000,000 as the annual saving---I take it as the annual saving----.

COMMISSIONER LEMAN: Did it strike you as being the figure?

SIR THOMAS TAIT: It strikes me as a figure that is not at all out of the way.

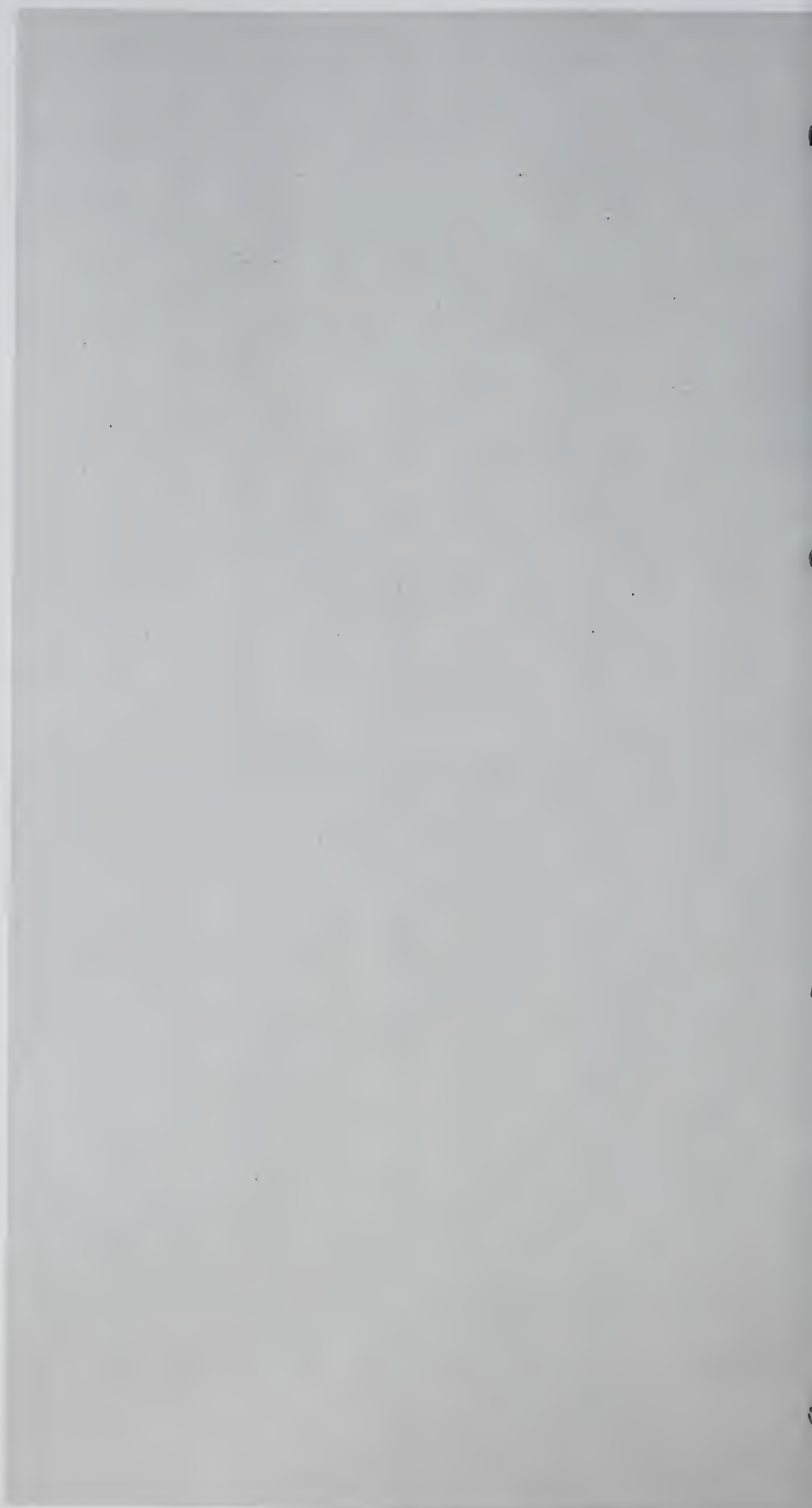
COMMISSIONER LEMAN: It is a thing which would be possible to achieve?

SIR THOMAS TAIT: I should think there would be a savings effected of between sixty and seventy millions of dollars under that scheme in the working expenses of a normal year. I do not say it would be effected the first year. It would have to be gone about gradually. There are a number of things that can be done very quickly which would not effect the public at all.

COMMISSIONER LOREE: If the Canadian National were in private hands, what amount of that seventy millions do you think could be saved by the two companies?

SIR THOMAS TAIT: If the Canadian National were in private hands?

COMMISSIONER LOREE: Yes.



SIR THOMAS TAIT: I am not at all disposed to say the Canadian National is not efficiently operated. There may be extravagances in capital expenditures; but I would consider, from what I have seen of the Canadian National service, that it is efficiently operated. And I think if I may be allowed to say so, it was absolutely necessary to bring the Canadian National system up to the standard of the Canadian Pacific, and to give as good a service. If it had not done so, it would not have got any traffic.

COMMISSIONER LEMAN: It would not be running.

SIR THOMAS TAIT: There were extravagances in using capital expenditure, no doubt. We all make mistakes.

COMMISSIONER LOREE: What I had in mind is this: you spoke about joint switching. We used to have a very congested switching district in the old Youngstown district of Pittsburg. We had the New York Central, the Erie, Baltimore and Ohio, and the Pennsylvania operated in there, and they would keep tearing down what the other fellow built up every few hours, so finally they agreed on a switching programme which effected great economy. That could be just as easily done, apparently with the amalgamation as by single ownership.

SIR THOMAS TAIT: As I have said, Mr. Loree, by separate administration, separate financial entities, there is considerable saving that could be effected by co-ordination and co-operation. Take, for instance, freight cars. It could be arranged so that freight cars would not be dealt with separately; one company would not have to return the cars of another. If there was a shortage at one place where they have direct connections,

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a shortage of cars on one line, they would send a car in and fit it up. Where there was an industry that had a siding belonging to each company, they would not send an engine and five men when they wanted a car, and after it was loaded they would not send an engine and five men to pick it up. In some places the C.P.R. send an engine and five men down with a car to have it loaded up, and the Canadian National send another engine and five men down to place a car on the Canadian National road, and when they are both loaded the Canadian National sends an engine and five men down to take their loaded car out, and the Canadian Pacific sends an engine and five men down to get their loaded car out. These things could be adopted, but they are a small part of the important amount that could be saved by a merger.

COMMISSIONER LOREE: That is what I was getting at. You think it would be a minor part?

SIR THOMAS TAIT: I do.

I think Sir Joseph has struck the crux of the question. I doubt if any practical railway man will say, but I think the saving to be effected by a merger into one financial entity and one administration, would be enormously greater than those that could be effected if they operated separately. Now then the crux of the question, to my mind, is this: the transfer to some body, board or executive, of the responsibilities of honestly, intelligently, and efficiently administering those railways in the best interests of the country and its people.

If you can devise a board of directors who can be trusted to do that honestly, intelligently and efficiently

in a broad statesmanlike way, I think you have overcome the difficulty. But that is it.

COMMISSIONER LOREE: One of the things in my mind is this: in 1901 the National Mercantile Marine was organized. Into that organization went the White Star line, the Ackerman line, and the Red Star line, and five or six other companies. At the end of eighteen months it was bankrupt.

SIR JOSEPH FLAVELLE: Yes.

COMMISSIONER LOREE: I have sort of lost confidence in mergers as being of much advantage in matters of economy.

SIR THOMAS TAIT: That may be so, Mr. Loree, but I should like to ask you a question, was the basis changed in that time?

COMMISSIONER LOREE: No, I don't think so. I think the mistake they made, if you ask me, was that they lost their touch with the public by allowing the solicitation affairs of these separate lines in connection with their clientele to be concentrated in one office; and they had such strenuous soliciting against them by the Cunard and Furness and other lines, who were dealing with old friends.

SIR THOMAS TAIT: Yes.

COMMISSIONER LOREE: I think that was the main reason.

SIR THOMAS TAIT: You cannot entirely dispense with soliciting, if you put those two railways together.

COMMISSIONER LOREE: No; I was not identifying the two in any way. But there was the case of a large merger, and you can find other cases, if you search history.

SIR THOMAS TAIT: I think that we know in this country

of mergers which, if they had not been followed by large increases in capitalization--if the capital of the two companies had been put together and left as it was, it would have resulted in very handsome results. Anyway, I just submit this.

SIR JOSEPH FLAVELLE: I have come to question profoundly whether the order of things in human society can be successfully entrusted to too narrow a circle. I am not thinking in terms of any particular road or any particular enterprise, nor am I thinking of political reactions except in so far as the government of the day has entrusted to this body of trustees the task of endeavouring, out of a difficult and complicated system, to bring in a plan not only which may appear to be the best but which will prove to be feasible. I suppose there is no parallel for the problems with which we are confronted in connection with our railway system, spread as it is over so immense an area.

SIR THOMAS TAIT: I doubt if there is.

SIR JOSEPH FLAVELLE: In the interpretation of this plan to our people, who by reason of the economic conditions prevailing in the Dominion have different interests and different outlooks, one must not forget that one section often questions whether the other section is playing the game; and the art of keeping all sections in accord is a task for the statesmen. On the whole they have done it very well, having regard to the extraordinary difficulties with which our public men have been confronted. Now, if such a merger as you propose was suggested to public men as being absolutely necessary,



and they ask what is the alternative, what is the answer? worked out under more normal conditions, and with the elements of prudence and good sense the dominating principles in administrative authority, is it reasonable to hope that we would over a period of years emerge without a substantial enlargement of tonnage and an acceleration of business within the country? What you believe is that if a new company were formed in which the people of Canada would be interested as shareholders, and through which the government of Canada would acquire all the railways by pledging their credit for the payment of interest, the security holders would be recompensed?

SIR THOMAS TAIT: I believe they would. May I mention here, just before I leave you, that section "F", of course, is not essential to this scheme. It was a provision in the Railway Commissioners Act of Victoria, which proved very useful to me, and I embodied it here just so you might have the suggestion before you.

Section "F", page 8. And of course, you understand, that in endeavouring to constitute a board of directors you find considerable difficulty. In the first instance, in the first year, I had to name four, then the Dominion Board of Railway Commissioners, four directors, because there would not be any citizen shareholders in the first year to elect the directorate.

SIR JOSEPH FLAVELLE: There is no provision for a sinking fund to get rid of the bonded indebtedness as it falls due.

SIR THOMAS TAIT: Well, of course, there are two views about having a sinking fund in railways. There is a



practice in the United States to have a sinking fund on the railways, Mr. Loree?

COMMISSIONER LOREE: To a very small extent. There are some of the older issues that provide for it.

SIR THOMAS TAIT: The railways have to be kept up to standard.

COMMISSIONER LOREE: It is almost negligible.

SIR THOMAS TAIT: If they are kept up to standard as regards their rolling stock and permanence of way and structures and so forth,--I have always felt that there is not the same necessity for a sinking fund on the railways as there is in certain other industries.

SIR JOSEPH FLAVELLE: It depends upon their credit. If you pay out everything that you earn, where are you going to land?

SIR THOMAS TAIT: I would not propose to do it in this case. You notice I set aside a reserve fund for two years.

SIR JOSEPH FLAVELLE: Yes, you do.

SIR THOMAS TAIT: Expenditure is more or less controllable, anyway. The net result can be very considerably improved. In the early nineties, if we had been wise enough to set up an able commission to decide on the layout of the railway lines in Canada, in regard to the territory which would not support a railway, how much money we could have saved, if we had planned. Canada is the narrowest country in the world, from a commercial aspect, excepting Chile. I do not suppose it has an average width, from a commercial aspect, of more than 200 miles. It is the most difficult country from a

a legislative point of view, that I know of in the world. Chile has a water connection along its western border. Canada is the most difficult country to make a tariff for. What is good in one part of the country is absolutely wrong in the other. In the early years our eastern manufacturers were competing with the west, and with manufacturing in New England. Now they are competing with people manufacturing immediately to the south, and all the way along; and it is extremely difficult to build up and maintain our existing interprovincial trade. I am going to leave with you a memorandum I submitted to the Dominion of Canada Commission on Industrial Relations. I have had a good deal of experience with compulsory arbitration and other forms of preventing industrial discussion in Australia. You know I mentioned in that pamphlet that I thought some method should be determined for the prevention of strikes and lockouts.

COMMISSIONER LEMAN: Are you concerned or have you given the matter any study as to whether the steam railroad is on the defensive against highway competition?

SIR THOMAS TAIT: Well, I have really thought of it. It is an easy matter to say a word or two about that. I do not want to take up the time of your commission; I do not think I have sufficient knowledge to say much, but I think it is.

THE CHAIRMAN: What was the question?

COMMISSIONER LEMAN: The question was this: whether the steam railroad was on the defensive at the present time in regard to highway competition?

SIR THOMAS TAIT: Well, I do not know that I will answer

that question just as you put it. I think this that all common carriers whether it be on the railroad or on the highway should be under some one authority. That would be very difficult to arrange in Canada, because the provinces will have to consent, for instance, to the Dominion Board of Railway Commissioners having something to say about common carriers on the highways. But if it can be brought about, I think the Dominion Board of Railway Commissioners or some other body, preferably the Dominion Board of Railway Commissioners, should have control of common carriers on the highway, and also common carriers on the railways. I think it would be advantageous. The rules for the maintenance and operation of motor buses and motor trucks would be uniform throughout the Dominion; and as regards the charges, I doubt if the provinces would be willing to turn it over to the Dominion Board; but if they could be induced to do so, so that there might be co-ordination with the railway authorities, and service co-ordination it would be no doubt worth while.

SIR JOSEPH FLAVELLE: If they apply to highways, they would not allow the taxes from the highways to go to a federal body.

SIR THOMAS TAIT: No, I do not mean that. I mean the charges on the enterprise, the rates and fares, the remuneration for the use of the roads, and so forth.

There is another question that arises, and that is the one of taxation; but I won't take up your time discussing it just now.

COMMISSIONER LEMAN: On the railways?

SIR THOMAS TAIT: On the railways. Mr. Loree can

tell you about that.

COMMISSIONER LOREE: Yes. There seems to be no limit to that.

SIR THOMAS TAIT: Their experience in the United States is much worse than it is in Canada. We are coming to it, because the railways are the easiest cows to milk by the provinces and municipalities. They need the money.

The Commission adjourned at 5.30 p.m.

page 2200 follows.

ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met in the Judges Conference Room, at the Supreme Court of Canada, Ottawa, on Wednesday, February 17, 1932.

PRESENT:

RIGHT HON. LYMAN POORE DUFF, P.C., Chairman

SIR JOSEPH W. FLAVELLE, Bart.)

BEAUDRY LEMAN, Esq.)

LEONOR FRESNEL LOREE, Esq.)

WALTER CHARLES MURRAY, Esq.,)

JOHN CLARENCE WEBSTER, Esq.)

Commissioners

Arthur Moxon, Esq., K.C., Secretary

George W. Yates, Esq., Assistant Secretary

Canadian National Railways

Mr. Gerard Ruel, K.C., Legal Vice-President

Judges Conference Room,
Supreme Court of Canada, Ottawa,
Wednesday, February 17, 1932.

Morning Session.

The Commission met at 10.30 a.m.

THE CHAIRMAN: Mr. Ruel.

MR. GERARD RUEL, K.C. (Legal Vice-President,
Canadian National Railways): Mr. Chairman, before I start
reading my plan, which I understand has been distributed, I
should like to say a few words as to why I thought it nec-
essary to do this.

I was mentioning to Mr. Beaudry Leman just before
we came in that it was not a new plan at all because I had
suggested something of the same kind to Sir William
Mackenzie shortly after the war came on. I joined the
Canadian Northern in 1903. I told Sir William that if he
could arrange -- he was then in desperate straits because he
had a whole lot of railway lines that were not finished and
he had a great many securities out ranging from three and a
half to four and a half per cent; naturally when the war came
on you could not sell them at any price -- I suggested he
might save the situation if he would go to Sir Thomas
Shaughnessy and say frankly that he would entrust the whole
Canadian Northern organization to him for a period of ten
years, to be operated with the C.P.R. as a combined enter-
prise during the ten years. I said to Sir William, "If you
can do that, I think you will be successful in keeping your
line and getting it back unimpaired at the end of the period!"

He wanted to know how it could be done. I told him there would be no amalgamation, it would be simply an entrusting agreement, under which he would entrust the property to Sir Thomas Shaughnessy to operate as a going concern jointly with the C.P.R. It did not work out, however, for three reasons: First, they were afraid of northwest sentiment; in the second place, there were a great many provisions in the statutes creating the Canadian Northern which prevented any pooling with the C.P.R.; in the third place, there was a very hard feeling between Sir William and Sir Thomas.

Later on when we came into the general coordination of the present railways, it was rather a puzzle as to how we were to take in the Intercolonial Railway. Then I suggested the same entrusting scheme, and that is in effect now. The Canadian Government Railways, or a large part of them except the Hudson Bay line, are entrusted to us for operation and management. We cannot sell any part of the property except with the consent of the Governor in Council, we cannot make a lease for a longer period than five years, but the plan carries on very successfully -- we have no trouble.

The entrusting principle is very similar to what you have in marine law.

COMMISSIONER WEBSTER: How do these branch lines in the Maritimes stand; are they your property or the property of the Intercolonial Railway in trust?

MR. RUEL: Some of them are ours. As to the last ones bought, we insisted that the government should take them over and issue their own securities; the government could not see their way clear to do so. Really they should be government owned lines.

COMMISSIONER LEMAN: Because they are feeders to something you do not own?

MR. RUEL: Of course, one line of railway we have, the old Halifax and Southwestern was, always a detached line; it never paid. Lines in the Maritime Provinces generally do not pay.

COMMISSIONER WEBSTER: Is the new Guysboro line an independent thing?

MR. RUEL: That is a part of the Canadian National Railways for the reason that the government did not want to issue their own securities to buy it; so it was easier to use our securities and guarantee them.

As I say, the entrusting principle is the same as you see in marine law. On every vessel there is a ship's husband. We are practically the ship's husband of all these railways. That is the scheme I am suggesting here, only the managing company is the ship's husband. That brings you down to general principles.

I have headed this little memorandum :

Suggested emergency plan of co-operation between principal Canadian Railways, to meet existing troubles.

I think we are up against a real emergency. Unfortunately people do not realize that in full, not even some of the people in our own organization. In former days it was quite easy whenever we wanted \$50,000,000 or \$100,000,000 to go down to New York with guaranteed securities and sell them. They ranged from 4 to $4\frac{1}{2}$ per cent, and we sold them at a fairly good price with the Dominion government guarantee behind them. But at the present time because of the difference in exchange you cannot do that any more, and the United States money market is virtually closed to us. That means we have

got to come to Canada to borrow money. Well, we cannot come to Canada and borrow, say, \$50,000,000. With the government wanting a couple of hundred million dollars, with every province wanting \$100,000,000, with the city of Montreal wanting \$25,000,000, and the city of Toronto wanting another \$25,000,000, and all the municipalities in the west wanting to float loans, this Canadian stocking is going to be exhausted very quickly. Consequently we are right up against it: we cannot borrow any more money and we are running behind at the rate of \$150,000 a day.

From the practical point of view we have to do something. From the railway point of view the ideal proposition would be to raise rates, but if you raise rates you depress industry. Rates might be raised gradually if this scheme of mine came into effect, because I do not doubt that many of our competitive rates have been forced down by competition to an unreasonable extent; but you could not raise them horizontally at all. Therefore we have to abandon that as a remedy for the present emergency. It seems to me the only thing we can do is cut our expenses, and cut them severely. So I have drawn up this plan on the basis of something that can be done to enable expenses to be cut very, very radically.

Possibly, Sir Joseph, you may remember years ago at the time of the "Whisper of Death" I suggested to you one morning in the Chateau Laurier that we should pool passenger business. That was eight years ago. I have been talking of pooling passenger business ever since. I never got anybody to side with me, for the reason that up to 1929 everybody thought it foolish to suggest anything of the kind. You



will find extravagant expenditures that both companies have been making, largely on passenger facilities, hotels, golf courses and things of that kind -- all utterly unnecessary if we pooled our passenger business. So in this scheme I have gone a little further than my suggestion to Sir Joseph eight years ago and given this proposed organization power to pool everything. Would you like me to read the memorandum?

THE CHAIRMAN: If you think it better to read and elucidate it as you go along.

MR. RUEL:

In the first place, parliament would form a managing company. You could call it "Canadian Co-operating Railways" or "The Canadian Railways Company", or any other suitable name.

The company would not have any stock, nor any stock qualification for the directors.

There would be ten directors. The Governor in Council would nominate five, the C.P.R. would nominate five. Vacancies would be filled by the party appointing the person whose retirement caused the vacancy.

COMMISSIONER LEMAN: Had we better discuss it as we go along?

MR. RUEL: Anything you like.

COMMISSIONER LEMAN: Would not the impression immediately get out that of the five nominated by the Governor in Council the C.P.R. would be sure to have one at least?

MR. RUEL: No, I don't think so. After all, you see, this managing committee or company that I would create have got to accomplish certain things: they have got to save money, they have got to make radical cuts in expenditure. It does not make any difference to me what ten men you get, because if they don't do the things we expect them to do

somebody else will do it for them. They have got to make a showing. Therefore you can make up the whole darn board of ten C.P.R. men if you like. In our organization we have three official directors: the President, Mr. Smart, Deputy Minister of Railways, and curiously enough I, as legal Vice-President, am appointed an official director too.

SIR JOSEPH FLAVELLE: That is, ex-officio.

MR. RUEL: Yes. Then the other directors are selected. That would leave only two directors for the government to select. Whether or not the C.P.R. got one of their members appointed on their side would not hurt the situation.

COMMISSIONER LEMAN: I am merely dealing with it from the public's point of view.

MR. RUEL: The government, of course, would have to be a little bit careful in selecting the proper men. I would select the very best men to be found in the Dominion of Canada. After all, you know, in the running of any organization it is very largely a matter of personnel; if you have good men at the head of your organization it will carry on, if you have not it will not go.

SIR JOSEPH FLAVELLE: You do not attempt a definition of goodness?

MR. RUEL: I have a lot of ideas on goodness, but unfortunately it is very hard to pick up good men. It would be very much easier, Sir Joseph, to name those who are not good.

The head office would be in Montreal.

That might be possibly changed to Ottawa if the corporation taxes down in Quebec are oppressive.



The directors would be paid such sums as would be approved, --

that would be natural, of course.

-- and there would be a provision in the By-laws for an executive committee of four or six.

They would have to be an equal number. There would have to be a provision that each side be properly represented on a quorum.

In this memorandum we will call this company the managing company.

As soon as the managing company is organized a list would be made up of the companies in the Canadian National Railways which should cooperate, and a similar list of companies in the Canadian Pacific Railway system,--

We have about twenty or thirty odd companies in our system.

We would list them all and say: Those companies must execute entrusting agreements.

-- and each of these companies so listed would execute entrusting agreements in the form set out in the act--

The form is very simple. We entrust the whole organization subject to the act.

COMMISSIONER IEMAN: Is it vital that you retain the number of companies that you are presently operating?

MR. RUEL: We would be very glad to consolidate the whole of them, but we are trustees in a way. Almost every trust deed we have contains a provision requiring consent of the bond holders to any consolidation, and in order to get that consent we would have to call a meeting of the bond holders in London. It is very undesirable to do so anywhere. We have not been able to consolidate all our Canadian Northern lines; for instance, we have the Canadian Northern Alberta, the Canadian Northern Saskatchewan, the Canadian Northern Ontario, the Canadian Northern Quebec, and so on.

the reason for those various companies was very simple. Years ago when the Canadian Northern was first established they put out what they called a four per cent perpetual debenture stock, which provided that debenture bonds could be issued to the extent of ten thousand per mile unguaranteed and fifteen thousand per mile if guaranteed, and they could rank ahead of government bonds. That meant if we went down to any other province to borrow money to build lines we had to build them for fifteen thousand per mile, and we could not do it. So we had to drop the Canadian Northern charter entirely and get an independent charter outside which gave us greater bonding power. As we got these we amalgamated them from time to time; a great number we have not been able to.

COMMISSIONER LEMAN: Are you down to the point where you cannot concentrate further?

MR. RUEL: We cannot concentrate further without holding bond holders meetings, and we do not want to do that.

THE CHAIRMAN: The arrangement under which the Canadian National is operated does not conflict with this provision of the entrusting deed in any way?

MR. RUEL: No.

THE CHAIRMAN: I assume these various charters are an embarrassment.

MR. RUEL: No, we do not find it any embarrassment in the management of the railway having twenty-nine companies, because the directors of each company are exactly the same persons. We might, say, be dealing with the Canadian Northern Ontario one minute, the next minute with the Canadian Northern Quebec, the next minute with the Canadian Northern Alberta, and so on. The secretary simply



makes his consolidated minutes, and when he gets back to his office he divides them up into the proper books. Consolidation would only effect this much, it would save a little trouble in the secretary's office and in the accountant's office.

COMMISSIONER LEMAN: Would there be a material saving by doing away with a lot of these trusteeships?

MR. RUEL: Even if you did amalgamate the trusteeships would exist. Sir Joseph will tell you why.

SIR JOSEPH FLAVELLE: You have not the money to pay them off.

THE CHAIRMAN: As you put it, convenience is really irrelevant, because you are prevented by reason of the provisions of the trustee from consolidating those various companies.

MR. RUEL: Yes. So we just disregard that entirely and go on our way cheerfully. It does not occasion any embarrassment to our management at all having twenty-nine companies, and I have been living with the organization now for thirty years.

SIR JOSEPH FLAVELLE: Are you down to twenty-nine companies for the whole system?

MR. RUEL: No, that is just roughly for the Canadian Northern.

SIR JOSEPH FLAVELLE: My memory is that I was a director of seventy or eighty companies when I was on the Grand Trunk Board.

MR. RUEL : Yes. We consolidated a lot of those in the west in the Grand Trunk Western. I am only speaking of the Canadian Northern. Taking it and the Grand Trunk

we have a hundred companies altogether.

COMMISSIONER LEMAN: I think Sir Joseph said there were ninety separate balance sheets.

MR. RUEL: However, that does not embarrass us. A great many persons say that if we got our financial structure reorganized it would be a very great advantage to us. It does not affect the organization at all. What we look at is whether the earnings this week are the same as for the corresponding week last year. If they are not, we are depressed; if they are better than last year we are correspondingly elated. Unfortunately the earnings have been depressing for some time past.

COMMISSIONER LEMAN: It does not render the accounting more expensive?

MR. RUEL: More difficult, but not much more expensive.

SIR JOSEPH FLAVELLE: I take it that your paper is outlining a situation which will be subject to review at the end of a given period?

MR. RUEL: Yes.

SIR JOSEPH FLAVELLE: It is a tentative arrangement to meet an emergency?

MR. RUEL: Yes, to meet an emergency,

SIR JOSEPH FLAVELLE: And the advantage under the entrusting agreement is the non-disturbance of existing conditions?

MR. RUEL: Yes, that is what we have always tried to do. We say if the thing does not hurt us, then leave it alone.

As soon as the managing company is organized a list would be made up of the companies in the Canadian National Railways which should cooperate, and a similar list of companies in the Canadian Pacific Railway system, and each of these companies so listed would execute entrusting agreements in the form set out in the act whereby the managing company would be entrusted for management and operation in every particular with the whole of the undertaking and works of the respective companies so executing, and with all their powers, rights and franchises, subject, of course, to the provisions of the act and to all statutes, obligations, contracts, agreements or duties, not inconsistent therewith, and so on.

That is exactly the same as we do at the present time with the government railways.

THE CHAIRMAN: There is no real difficulty with regard to jurisdiction, I suppose?

MR. RUEL: Not the slightest. These companies -- I am only speaking of the Canadian companies -- are all creatures of the Dominion parliament, so there is no trouble there. If they decide they do not want to cooperate they do not get the advantage of the savings. If individual companies want to stay out they lose; they cannot run on their own merits at all.

In like manner the Governor in Council would execute an entrusting agreement in similar form, with appropriate changes, of the whole or any part of the Canadian Government Railways which it was deemed expedient to entrust to the managing company for management and operation.

All of the companies, including the Crown, executing entrusting agreements will be called in this memorandum the Owning Companies.

That is, they would cancel existing entrusting agreements or orders in council in that case and execute entrusting agreements under this plan. I may say that all the government railways are at present entrusted to us except the Hudson's Bay Railway. That railway is operated by us as agents of the government. The difference is it does

not come into our accounts.

Provision would be made for adding new companies from time to time if it were deemed expedient, --

that is, if we left any out that we should bring in.

-- and, with the consent of all the parties, of withdrawing companies from the combined enterprise if their undertakings and works appear to be no longer of value to the cooperative enterprise.

I just put that in as a safeguard in case it was found idle to keep one or the other company in.

The entrusting agreements would continue in force for a period of five years and thereafter until parliament authorizes their cancellation.

I put infive years deliberately, for two reasons.

In the first place, I did not want to make it appear that we were going into a permanent arrangement. I think the government would have great difficulty in getting a permanent amalgamation through parliament, even if that were desirable. But I do not think we will be able to accomplish much in five years. Just as in the old days when the Grand Trunk and the Grand Trunk Pacific were put together with us, Hungerford immediately started in on coordination. That was under Sir Joseph's regime. We did coordinate the lines quite considerably, we cut off expenditure here and there, and we estimated that we would save \$600,000 here, \$300,000 there and so on. But we found the effect was not immediate, it took a couple of years for the savings to be reflected in the accounts. So five years is a pretty short time, but I put it that way deliberately in order not to frighten people, that they might not think we were going into something permanent. We leave it to parliament to cancel everything if they want to get back to competition. Competition is a tremendous fetish in this country. I think competition is a curse. However, somebody may not agree with that.

COMMISSIONER LEMAN: Would not this managing company have all the odium of what you might call the disagreeable work and render itself most unpopular?

MR. RUEL: Odious?

COMMISSIONER LEMAN: Yes, odious.

MR. RUEL: Sure.

COMMISSIONER LEMAN: Without having half the time necessary to bring about the other side of the picture, the advantages to the country as a whole?

MR. RUEL: Yes.

COMMISSIONER LEMAN: I am merely asking the question.

MR. RUEL: I quite agree with the question. But let us consider this. Even if I put in my bill "this arrangement is not subject to cancellation for five years," you will appreciate that parliament can amend any act, and therefore parliament could tear the arrangement apart in three years, notwithstanding that provision; and if instead of five I inserted ten years, parliament could tear it apart at the end of five years.

COMMISSIONER LEMAN: I had in mind your personal opinion.

MR. RUEL: My personal opinion is that five years is too short, but, as I said, I put that in in order not to scare people. I hope parliament will keep it going. I hope also, Mr. Leman, that if at the end of five years possibly parliament should say to us, "We have cancelled your entrusting agreement as to freight, but we are leaving it running as to passengers and telegraphs," it would be all to the good. There is no reason why we should have two telegraph companies in this country -- there is no advantage

in service --two express companies, competing hotels and steamships -- all those things could very well be worked cooperatively. We have got to save money.

Upon cancellation each of the Owing Companies would be restored to the full management and operation of its respective undertakings and works as then existing, with all their respective rights, powers and privileges unimpaired, save only in so far as modified, impaired or improved by virtue of the administration of the Managing Company.

That is the principal feature of the plan, that you can break it apart; it is not permanent. You can keep it as long as parliament think it necessary to keep it, and then you tear it apart. In my scheme of operating profits, which I am coming to later on, I am hoping the Commission will make some recommendation for setting up what might be termed an annual depreciation account, because you will understand that in making these savings you have to discontinue services on many lines, you have to abolish this and that facility which is now being used, and if we are torn apart during the period we will have to compensate the Owing Companies. Consequently we have to set up a sinking fund to meet that depreciation, and we cannot divide all our profits.

The managing company would be directed by the statute creating it to conduct the management and operation of the various undertakings and works entrusted to it as one undertaking or combined enterprise in order that duplication of services should be avoided, consistent with the reasonable requirements of traffic, and that all unnecessary extravagance and unreasonable expenditure should be curtailed.

Possibly I might not put it quite so strongly as that in the act. Nevertheless, that is what I think should be done. There has been unreasonable expenditure, unnecessary extravagance.

It would be given power to curtail, alter or discontinue any services or facilities, and the Board of Railway Commissioners would be instructed to cooperate in the reasonable furtherance of this purpose.

I put that part in because we find it quite difficult at the present time when we want to cut out passenger business; the Railway Board very often do not give us permission.

THE CHAIRMAN: The Railway Board is too much influenced by the community interest.

MR. RUEL: Yes, they compel us to carry on lines which are not profitable. That should be eliminated and the Board told: This is the policy to be followed.

There would be a more detailed allocation of the powers of the managing company with respect, for instance, to the making of tariffs or tolls, the fixing of salaries and compensation, the making of leases or licenses not exceeding five years duration, and the negotiation of sales of properties, although, of course, the managing company could not sell any property, and there would be provision that all such matters and things could be performed by the managing company in its own name or in the name of the Owning Companies affected, at discretion.

COMMISSIONER LEMAN: That is a very important paragraph. You limit that to arrangements for five years. You want to keep both systems unimpaired under the joint management?

MR. RUEL: Yes, as far as possible.

COMMISSIONER LEMAN: Would not that mean that in certain cases where the removal of duplicating lines renders running rights necessary you would cover it by much longer contracts than five years?

MR. RUEL: Yes, they are 999 years usually,-- that is much longer. But, you see, I say at the end that I cancel all the agreements. Suppose we take the case of the passenger service between Montreal and Toronto. Obviously



the fast trains would run on the Grand Trunk, obviously the slow trains would run on the C.P.R., because we have a double track line and they have not. It would be common sense to do that. But we could not deprive the communities on either of those lines of facilities. That is what we were up against years ago when we were dealing with the Grand Trunk Pacific. Sir Joseph will remember that that occurred in 1919.

SIR JOSEPH FLAVELLE: Yes.

MR. RUEL: I was acting for the government at that time. Sir Thomas White had said, "We are not going to continue to lend to the Grand Trunk Pacific \$7,500,000 a year." They gave us notice that one week hence they would discontinue service on the Grand Trunk Pacific. It was a blow in the eye. Mr. Nash and I were sent for, rushed up to the government and asked, "What are we going to do?" Obviously that could not be allowed to happen, because here were all those large communities established along the line, Wainwright, Biggar, and dozens of other places, that would be absolutely shut off from all communication, and there were no motor buses in those days to take the place of the railway. We said, "It is a very simple proposition. We will just put the Grand Trunk Pacific in official receivership, grab the whole thing, and we will put on a penalty of \$1,000 a day on anybody who refuses to carry out the orders of the receiver."

SIR JOSEPH FLAVELLE: You did that under the War Measures Act?

MR. RUEL: Yes, we had extraordinary powers in those days. We were able to meet the situation, and when we



called together the officers of the Grand Trunk Pacific at the end of the week and presented them with this order in council the shock was on their side. But we could not shut down that line.

COMMISSIONER LEMAN: But it does not answer my question that with respect to measures of a real constructive character, such as the abandonment of parallel lines and the leasing of running rights, you would require a long term lease. Just as an example to visualize the situation, around Nipigon you have a stretch of line paralleling the C.P.R. If you abandoned that line, which does not serve any important community --

MR. RUEL: There are industries.

COMMISSIONER LEMAN: They would have access to the C.P.R. line.

THE CHAIRMAN: Assume for the moment that it is a proper piece of line to be abandoned. Just call it "piece of line A."

COMMISSIONER LEMAN: If you abandoned piece of line A, you would want to secure for yourselves over that parallel stretch of line, that is over the C.P.R. or the C.N.R., a long term lease.

MR. RUEL: No.

COMMISSIONER LEMAN: Or running rights.

MR. RUEL: No, because when we tear the entrusting agreement apart we would go back and reopen that line.

COMMISSIONER LEMAN: You would lose the benefits of what you had accomplished during the five years.

MR. RUEL: That would be the argument against re-opening.



COMMISSIONER LEMAN: Would it not be better to have a long-term agreement which would give both companies running rights over the lines of the other?

MR. RUEL: You will find it very difficult, Mr. Leman, if you run across Canada to find any piece of line that can be safely abandoned without tremendous protest from the local communities.

COMMISSIONER LEMAN: But there are some stretches of line where the same communities are served by the parallel line.

MR. RUEL: Especially between Toronto and Montreal.

COMMISSIONER LEMAN: But in the west, just to give you a typical example without mentioning any names, take between Saskatoon and Unity --

THE CHAIRMAN: Or Oban and Unity.

COMMISSIONER LEMAN: Yes.

THE CHAIRMAN: I understand Mr. Ruel's position is this: of course, this proposed arrangement is subject to dissolution at the expiration of five years.

MR. RUEL: Quite.

THE CHAIRMAN: Which would necessarily involve that all these agreements should be dissolved except by consent of the parties.

MR. RUEL: Quite right.

THE CHAIRMAN: It is essential in his scheme that these things should be dissolved at the expiration of five years.

MR. RUEL: Not unless parliament says so.

THE CHAIRMAN: I mean to say assuming that the scheme as a whole disappears at the expiration of five years,



it is essential that these particular things disappear unless there is an agreement to continue them?

MR. RUEL: Yes. The answer to that would be this. Suppose, for instance, we abandoned one of the lines in the west that you speak of, we do not dismantle it, we simply cease to operate. We probably would not dismantle any of these, because that can be done only with the consent of the company that owns the property. Suppose we got a conditional cancellation of the entrusting agreement, we could arrange with the C.P.R., or the C.P.R. could arrange with us: Here is your line, here is another of ours; we will cease to operate this line because of the little traffic on it.

THE CHAIRMAN: Mr. Ruel, would it not be entirely within the general scope of your proposals that parliament in bringing about their discontinuance would accept such a condition?

MR. RUEL: Yes, I hope if parliament cancels the arrangement it will cancel it on conditions -- for instance, that passenger business continue pooled.

THE CHAIRMAN: That is, the holding of hands by parliament in particular instances would be entirely within the scope of your arrangement?

MR. RUEL: Yes. I cannot think parliament would order us to cancel it and thereby bring back a situation which we knew was intolerable.

COMMISSIONER LEMAN: Otherwise you would have a recurrence of just the conditions which now obtain.

MR. RUEL: Exactly. That is one of the arguments against tearing down the entrusting scheme, and that is why I say it will be hard for parliament to do that. There would



be no good reasons for cancelling the entrusting arrangement if we are making considerable savings. Of course, parliament may say that the cancellation of the arrangement will bring back competition, which seems to be a fetish with a great many people. On the other hand, it will bring back the expense of operating by two organizations whether the arrangement is cancelled in toto or with conditions.

THE CHAIRMAN: The thing is permanent subject to parliamentary action?

MR. RUEL: Yes.

THE CHAIRMAN: Parliamentary action may be all-inclusive; on the other hand, it may relate only to certain things.

MR. RUEL: Quite, sir. That is what I am hoping.

COMMISSIONER LEMAN: In other words, arrangements could be of longer duration with the consent of parliament.

MR. RUEL: Absolutely.

THE CHAIRMAN: The scheme as a whole and every part of it continues in the absence of parliamentary action in respect to it as a whole or in respect to any part of it.

MR. RUEL: Yes. I think parliament would not take any action to cancel the agreement without coming to the owners of the two organizations and saying, "Do you think this is a good time to tear it apart, and do you think we ought to tear it apart in toto or just in part?" I think we would have to be consulted, because after all we would be the only people who would know. I am saying "we" because I may be there at the time.

COMMISSIONER MURRAY: The physical condition of the property is a vital question. If the arrangement continues

for ten or fifteen years the physical condition of one of those lines would be very, very much worse, and it would be practically impossible to revert to the original position.

MR. RUEL: Yes, after ten or fifteen years it would be more difficult. But in the division of the operating revenue I am hoping the Commission will recommend that the Operating Company set up a depreciation fund which will be available for distribution whenever there is material depreciation or loss of a particular line. If there was more money set up in the fund than was necessary for the purpose, naturally it would be divided between the two companies. So long as you have your depreciation fund it does not make any difference how much you depreciate the line but do not dismantle it. But the Owning Companies can at any time decide to dismantle their own lines, provided there are no mortgages on them to prevent their so doing.

COMMISSIONER LOREE: Do you happen to remember the amount of money in the profit and loss account?

MR. RUEL: Whenever I look at our accounts it gives me a pain.

COMMISSIONER LOREE: You don't have a large profit and loss surplus?

COMMISSIONER LEMAN: The physical disappearance of a line would be where there is duplication.

COMMISSIONER MURRAY: Nearly every improvement you make involves some physical loss.

MR. RUEL: That of course comes under the depreciation account.

COMMISSIONER LEMAN: What the people want in the way of Union stations would help very considerably.

MR. RUEL: There is no question about it. We have



a desperate situation ahead of us, we have got to meet it, we have got to make savings. Can you suggest any better plan than this? If anybody can tell me of any better plan I shall be glad to accept it. I am not accepting this; you are.

THE CHAIRMAN: We are only too glad to agree with it.

MR. RUEL: Because that is all I am trying to do-- to find some solution that we can get through parliament, something that will not raise too much of a row and so lead to the damning of the experiment; also something that we can get through quickly, because we have to act quickly. I go into the detail powers of the Managing Company, what it can or cannot do. It is perfectly obvious that it cannot sell or dismantle any part of the property without the consent of the owners..

THE CHAIRMAN: They would get into the habit of doing a great deal by consent in five years, otherwise they could not get on at all.

MR. RUEL: Yes. Suppose we go down to the government at the present time about the Grand Trunk Pacific or the Intercolonial line, and we say, "Such and such a thing should be done; abandon this wharf, give it to the public works department," we have not any trouble. The government say, "Of course, that is the right thing to do. If you recommend it we will put it through." You can avoid a whole lot of petty trouble running through these things.

THE CHAIRMAN: Theoretical trouble.

MR. RUEL: Yes, but it works out all right if you have practical men.



All the officers and employees engaged in the management of the undertakings and works so entrusted would continue to be officers and employees of the respective Owing Companies, even though paid by the Managing Company from the moneys controlled by it.

That is to preserve their pension rights.

COMMISSIONER MURRAY: The managing company would have power to make rates?

MR. RUEL: Yes. The board of directors always fix the tolls; that is a power given to the officers of the railway; then the railway board approves or disallows those tolls.

COMMISSIONER LEMAN: It was always subject to the action of the Board of Railway Commissioners.

MR. RUEL: I am taking away from the parent companies the right to fix tolls and giving it to the managing company, subject to the usual control under the Railway Act.

THE CHAIRMAN: It is vested now in the directors of the managing company instead of the directors of the constituent companies.

MR. RUEL: Yes.

The Managing Company would be instructed to keep accounts necessary in the interests of the respective Owing Companies, and to keep consolidated accounts showing income and expenses incidental to the operation and management of all the undertakings and works entrusted to it by virtue of the statute. After payment of all working expenses and making provision for working capital the Managing Company would divide the net operating income among the Owing Companies on some approved formula which the present Royal Commission on Railways could be asked to suggest.

The Managing Company could not, of course, sell any lands or interest in lands forming part of the undertakings entrusted to it. That would be a matter for the Boards of the Owing Companies.

During continuance of the entrusting agreements the Boards of Directors of the respective Owing Companies would be reduced to three members, that is, just a skeleton organization.



The reason is that we have a full board of fifteen --

SIR JOSEPH FLAVELLE: They cannot exchange lands except by common consent.

MR. RUEL: It has to be the consent of the Owning Company itself. That is the way it is at present with the government lines; we cannot sell a foot of land of the Intercolonial; it has to be sold by order in council.

THE CHAIRMAN: But if your method of constituting the board of directors were accepted, it practically means consent on both sides.

MR. RUEL: Absolutely.

THE CHAIRMAN: Everything is done by consent practically.

MR. RUEL: Yes, those people have got to agree.

SIR JOSEPH FLAVELLE: Are you thinking of vesting the government properties in trustees and getting the consent of the trustees instead of going to parliament for it?

MR. RUEL: The government would be in exactly the same position as now with respect to the Intercolonial Railway.

SIR JOSEPH FLAVELLE: Whatever difficulty arose you would have to go to parliament and have it wrestled over?

MR. RUEL: It is the same way now; we have control of the government lines by entrusting agreements.

SIR JOSEPH FLAVELLE: I know you have. But I am thinking of a situation where the logical working out of this would lead gradually to the getting rid of the undesirable. In the one case you have a board of directors of the private company, and in the other case you have the parliament of



Canada, or order in council.

MR. RUEL: Yes.

THE CHAIRMAN: It is only the government railways.

SIR JOSEPH FLAVELLE: Can the Canadian National board dispose of property now without any reference to parliament?

MR. RUEL: Yes.

THE CHAIRMAN: That is to say, the boards of the constituent companies of the Canadian National can do it. There are so many different companies.

COMMISSIONER LEMAN: Three bodies would have to pass on it.

MR. RUEL: One board makes the recommendation.

SIR JOSEPH FLAVELLE: The owner board could prohibit it?

MR. RUEL: Yes, we can refuse to operate it, we can refuse to give any service on it, but we cannot sell or deal with it.

THE CHAIRMAN: Do you contemplate any method of coordination between the directors of the managing company and the board of the other companies, the C.P.R. Board for example? Would that be possible?

MR. RUEL: Quite.

THE CHAIRMAN: We will say the Canadian Pacific representatives would --

MR. RUEL: I cannot speak for the Canadian Pacific in suggesting that our own company cut down its board to three directors. Those would be our official directors.

THE CHAIRMAN: Quite so. These would be really under the control of the directors of the managing company



who are named by the government.

MR. RUEL: Exactly.

THE CHAIRMAN: I suppose the C.P.R. could be arranged in the same way.

MR. RUEL: If they wished to do so, yes.

SIR JOSEPH FLAVELLE: Do the C.P.R. in their outside activities carry on with separate corporate entities?

MR. RUEL: They do in some cases. I have not suggested any part of this to the C.P.R. They have several other companies, for instance, the Soo Line.

SIR JOSEPH FLAVELLE: I was not thinking so much of their direct railway lines. They have been paying out of outside earnings five per cent of their dividend. Are they incorporated separately so they would not come in?

MR. RUEL: Yes.

COMMISSIONER LEMAN: Are their steamships a separate company?

THE CHAIRMAN: C.P.R. Ocean Services was a separate company, but they abandoned that plan.

MR. RUEL: Yes. I say in the paragraph on the first page that as soon as the managing company is organized a list of the companies in the Canadian Pacific Railway system should be made which should cooperate. That is, a company such as Consolidated Smelters would not come in; and the same way with the Canadian National. We would expect them to act reasonably, because if they do not come in they would lose the benefit of the savings. That is what I call the compelling feature.

THE SECRETARY: It is activities rather than companies.

MR. RUEL: No, everything works under a franchise of some kind.

SIR JOSEPH FLAVELIE: They own the share capital in certain companies.

MR. RUEL: We do that too.

SIR JOSEPH FLAVELIE: They have no power to require a company in which they have a share of the capital to come in to this arrangement unless they happen to control that company.

MR. RUEL: Exactly. But we make a list of those, we would probably put them in the act, and we would specify even those companies. We say to them, "You must sign the entrusting agreement." If they do not they are outside the scheme.

THE SECRETARY: There is no hotel company of the C.P.R. It is their activities - passenger, freight, hotels.

MR. RUEL: You entrust the whole undertaking. If it is an activity it is a part of the undertaking.

THE SECRETARY: If you entrust the whole of the C.P.R. undertaking you entrust the shares of the smelter company.

MR. RUEL: No, we except those.

THE SECRETARY: It is activities rather than companies?

THE CHAIRMAN: The basis of this arrangement is cooperation between yourselves and the C.P.R.; unless the C.P.R. is willing to come in that is an end to the matter.

MR. RUEL: Yes.

THE CHAIRMAN: Whether separate arrangements should be made in regard to hotels, and you should concentrate on transportation proper, would be a matter for negotiation.



MR. RUEL: Yes, we have got to agree.

Then I put in this clause about the Chairman:

The offices of the President and Chairman would be separate.--

I think the offices of president and chairman should always be separate.

THE CHAIRMAN: I do not think anybody here will disagree with that.

MR. RUEL: This is the remainder of that paragraph:

--The directors appointed by the C.P.R. or the Canadian National would agree among themselves which group should in the first place nominate the President. The other group for the same year would nominate the Chairman, and the positions would alternate in each succeeding year.

We do that with the Northern Alberta. We own that little system in common with the C.P.R.

COMMISSIONER LEMAN: How does that arrangement work?

MR. RUEL: Very well indeed. The Toronto Terminals are the same way; we each own half of the stock.

COMMISSIONER LEMAN: You divide the profits of the Toronto Terminals?

MR. RUEL: Yes, we divide the dividends -- if there are any. I never knew a terminal company yet that had a dividend.

Capital expenditures would require the approval of the Owning Companies affected.

Of course that is reasonable. The owning company has to take care of itself.

Then the next clause:



Security issues for the purpose of capital expenditures would be made by the Managing Company and guaranteed by the Canadian National and Canadian Pacific jointly and severally.

That is put in as a pious hope. I do not think the Canadian National guarantee would be worth a cent.

THE CHAIRMAN: So if the C.P.R. would not assent to it you would require a government guarantee?

MR. RUEL: Yes. That would have to be a separate bill each year. Parliament would not give the Governor in Council unlimited authority to guarantee anything; you would have to go back each year and get your authority.

THE CHAIRMAN: That would be a good thing.

MR. RUEL: Yes, the government would exercise some control. We have, generally speaking, to expend one per cent on capital account every year. That has got to go on, somebody has got to raise the money for it, but, as I point out here in the next clause:

Each Owning Company participating in the proceeds of any issue would be required to put up its own securities with the Managing Company to the extent of its participation and to pay the principal and interest thereon. The Managing Company would apply these payments against its own indebtedness under the guaranteed securities.

That is exactly what happened under what we call the 1914 mortgage of the Canadian Northern. We borrowed \$45,000,000 on a guarantee of the Dominion government. We gave a mortgage to the National Trust and the British Empire Trust for the whole amount. Then our participating companies, the Canadian Northern Alberta, the Canadian Northern Saskatchewan, the Canadian Northern Ontario, the Canadian Northern Quebec, and so on, to the extent that they participated in that \$45,000,000 loan were obliged to make their own mortgage and put up their own securities. I do not

think we actually required them to put up securities, but they did give their own mortgage to the extent of the moneys they got, and they are supposed to be paying interest on those moneys to the parent company; as a matter of fact they are not.

SIR JOSEPH FLAVELLE: A benevolent government is paying it?

MR. RUEL: Yes.

COMMISSIONER LEMAN: Could you not get around that difficulty by determining whether any capital expenditure referring to a physical condition applied to one company or to the other?

MR. RUEL: We do that every year.

COMMISSIONER LEMAN: Through a budget?

MR. RUEL: Yes.

COMMISSIONER LEMAN: If C.P.R. expenditure they would issue bonds or some other form of security; if C.N.R. expenditure you would have the government guarantee a bond issue for it?

MR. RUEL: Yes.

COMMISSIONER LEMAN: The same as regards equipment, is it added to the equipment of the C.N.R. or to the equipment of the C.P.R?

MR. RUEL: It would not be necessary to get any equipment for years.

COMMISSIONER LEMAN: But theoretically if this continued, as we hope, for a great many years you might need equipment.

MR. RUEL: We might. That is a matter which of course could be arranged from year to year; it is not



necessary to tie it up in the original act.

COMMISSIONER LEMAN: It would be more in the spirit of your recommendation that you are keeping those bodies alive and having no securities issued by the operating company.

MR. RUEL: Yes. Of course, it is a very bad principle to allow an operating company to issue securities. For instance, a ship's husband would never give his note to pay any indebtedness of his vessel; he would be a lunatic if he did.

THE CHAIRMAN: But virtually you require consent in each case?

MR. RUEL: Yes.

THE CHAIRMAN: Would it not be better to leave it to be settled from year to year as the emergency arises?

MR. RUEL: It can be settled just that way.

THE CHAIRMAN: That would be the fairest way of doing it.

MR. RUEL: Yes, and it would be the most feasible. As things get better the Canadian National guarantee might become of some value. There are no mortgages on the Canadian National now; we do not issue mortgages any more, we just issue guaranteed securities.

SIR JOSEPH FLAVELLE: You have a good endorser.

MR. RUEL: We sell on the basis of the endorser.

THE CHAIRMAN : You have had a good endorser.

MR. RUEL: Yes, it is fading out.

There would have to be a provision respecting the bringing of actions or suits against the Managing Company, and a section providing for the winding up of the Managing Company upon cancellation of the entrusting agreements, --

Very often they sue us now as the Canadian National Railways we do not mind that. They also sue us on behalf of the government railways; that is permitted.

---also upon winding up some formula should be provided for the payment of compensation to any Owing Company for deferred maintenance to which such Owing Company might be entitled.

I spoke of that before. In case we break apart they have to be compensated.

Existing joint ownership agreements would be suspended during the continuance of the entrusting instruments.

Such companies as the Northern Alberta and the Toronto Terminals Railway, which are owned jointly by the Canadian National and Canadian Pacific, should also entrust their undertakings and works to the managing company.

I come back now, as you requested, to the paragraph on page 3:

The managing company would be instructed to keep accounts necessary in the interests of the respective Owing Companies --

we have to do that anyway.

-- and to keep consolidated accounts showing income and expenses incidental to the operation and management of all the undertakings and works entrusted to it by virtue of the statute.--

That is, a consolidated balance sheet by virtue of the statute.

-- After payment of all working expenses and making provision for working capital the managing company would divide the net operating income among the Owing Companies on some approved formula which the present Royal Commission on Railways could be asked to suggest.

That is the paragraph you said we would come back to.

COMMISSIONER LOREE: Does this agreement require the assent of the Canadian Pacific?

MR. RUEL: Yes.

COMMISSIONER LOREE: What inducement would there be for shareholders of the Canadian Pacific to enter into it?

MR. RUEL: The inducement would be this. They make a very general charge against us, although we repudiate it, that because of the competition set up by the Canadian Government Railways and the Canadian National Railways and the extraordinary expenditures which we make, they can no longer keep up with the Joneses. We are the Joneses.

COMMISSIONER LOREE: But that period has passed with this depression.

MR. RUEL: No, that period still exists.

COMMISSIONER LOREE: The government will not put up any more money for that sort of thing.

MR. RUEL: But we have still a very expensive organization to run. They have a very expensive organization to run.

COMMISSIONER LOREE: I mean from the standpoint of a shareholder of the Canadian Pacific. Wouldn't he sit back and see the government apply its own remedies to its own properties?

MR. RUEL: If the government cut down on our revenue and say, "You take up this line here and that line there," the people would immediately set up the cry: The government is destroying the Canadian National.

COMMISSIONER LOREE: The Canadian Pacific could endure that.

MR. RUEL : Yes; but it is one thing for the Canadian Pacific to say that.; it is quite another thing for the people to say so. The Canadian Pacific can charge that to us and nobody pays much attention to it, but if that

charge were made against the government it would be serious. That is what I am seeking to avoid.

THE CHAIRMAN: As things are the Canadian Pacific have not any security that this ruinous competition will not continue?

MR. RUEL: Exactly.

THE CHAIRMAN: Except the financial straits of the government.

MR. RUEL: Yes.

COMMISSIONER LOREE: Is not that going to be sufficient to give them full security?

MR. RUEL: No, because we have spent so much in past years that our programme is pretty well completed so far as capital expenditure is concerned, except for two hotels, and we have enough money to finish those; the Montreal Terminals are not finished of course; but, generally speaking, we have an enterprise which is very, very effective at the present time. It is too darn effective-- that is the trouble.

COMMISSIONER LEMAN: Is not the position about this: the government has forced the C.P.R. into considering such an arrangement as this?

MR. RUEL: No, I don't think it has gone as far as that.

THE CHAIRMAN: The Canadian National won't admit that.

MR. RUEL: Mr. Commissioner, suppose we take for the purposes of illustration two departmental stores -- and possibly Sir Joseph would understand the situation, having been interested in those in former days. Suppose you look

on the Canadian Northern as one departmental store as it existed in the time when Mr. Hanna first picked it up. Mr. Hanna was a very capable president. We were then a decrepit road, we were busted, we had no show at all. Everybody said: Oh, the Canadian Northern is no good at all. If we had allowed that situation to continue, and there had been a first class departmental store across the street, naturally all the business would have gone to the good store. Of course, we had to put our own house in order, and we spent money here, there and everywhere making our departmental store just as good as the other fellow's. And it is good business. Otherwise we might as well go into bankruptcy right off the bat. So in time we get our departmental store as good as the one across the street, and he says, "My God ! you are running us out of business. You should not be allowed to do it." Any sensible body of men would have acted exactly as we did: they would put their own business in order first, because it is no good continuing with a decrepit organization. But I think we went a great deal too far; We spent money on gilded roofs, marble walls, and things of that kind. Then the departmental store across the street comes along and says, "Look what you have done to us? You have taken away all our business." After all, in Canada there is only a certain amount of business which can be divided between the two railways. We can steal from the C.P.R., they from us; we offer greater inducements than the C.P.R., and they come across and offer better still, and each one is fighting for its own existence as we are today. We say it is about time we got together and saved money instead of doing that kind of

thing.

COMMISSIONER LEMAN: Because it comes out of the same people.

MR. RUEL: Yes, it comes out of the same people.

COMMISSIONER MURRAY: The C.P.R. say they get over the five-year period for which they have given us certain statistics forty per cent of the total revenue for passenger traffic on all Canadian railways, and from thirty-nine to forty-one per cent of all the revenue for freight traffic. So that the loss is due to outside agencies, not to other railways.

MR. RUEL: It is quite true that the depression of our revenues is not altogether due to competition. The fact is that this world-wide depression comes on and we find that we each have a machine too big for the purposes of the country. Therefore I say: If you run them together you would probably be able to effect great savings. That is the whole purpose of my plan. I repeat, if you run this scheme you will save money. And you have got to save money, because you cannot borrow any more and you can not continue as you are now. The inducement for the C.P.R. to come in is just as I stated to Mr. Loree. From my point of view they cannot go on as they are at present; they will have to borrow money -- and C.P.R. securities are not saleable at the present time.

COMMISSIONER LOREE: Why do they have to borrow money?

MR. RUEL: For their own capital expenditure.

COMMISSIONER LOREE: Why make capital expenditure?

MR. RUEL: You have to earn one per cent per annum

for capital expenditure in any event.

COMMISSIONER LOREE: You get that out of your depreciation.

MR. RUEL: If it is set up in money, but I do not know any Canadian railway that does so.

COMMISSIONER LOREE: My own company deposits money to its depreciation account every month, and that money can only be expended under my instructions.

MR. RUEL: If that had been done in Canada we would have had a large depreciation account to work on. But it has never been done. It is not part of our law.

SIR JOSEPH FLAVELLE: It was not part of the policy of the administrators.

MR. RUEL: Because in our case it would have increased the deficit.

SIR JOSEPH FLAVELLE: It would only have established the truth.

MR. RUEL: Yes, it would only have established the truth.

COMMISSIONER LOREE: The question of amalgamation is based on the general theory that the properties would be more economically managed if they were consolidated. Many people, however, have not been able to see the economies claimed for consolidation. I am wondering whether specific figures have been gotten together to show what consolidation would produce.

MR. RUEL: It depends very largely on what the people will stand for.

COMMISSIONER LOREE: For example, we will say you put two companies together and you have only one president

instead of two; but where you formerly had four vice-presidents you find yourselves with ten. You have not cut down your overhead at all, you have just created a new lot of titles. Some people are very sceptical about the economies of consolidation.

MR. RUEL: I am not, because I can see perfectly well an illustration under my nose, and I see it every day. Here are two trains running between Montreal and Ottawa, for instance, leaving at practically the same hour and both more or less empty. Some of the trains running at odd hours pay, they are quite full; others running at the same hours never pay. It seems to me to be a crime to have those trains running up and down with no passengers on board. That is one little instance. How many others can we develop similar to that?

COMMISSIONER LOREE: How would the sum of those economies compare with the sum of the economies if you took off every train that did not earn operating expenses?

MR. RUEL: The other fellow would immediately profit by it. We took off a train not very long ago running from Quebec to Montreal despite protests from the Quebec people. The C.P.R. immediately changed its passenger schedule to pick up all the passengers whom otherwise we would carry on that train.

COMMISSIONER LOREE: Do they handle it at a loss?

MR. RUEL: No, it pays now because they get all the traffic. There is the difficulty that comes with little things like that unless you adopt some such scheme as mine.

SIR JOSEPH FLAVELLE: Of course, Mr. Ruel, I am critical of the proposal first because it practically crosses

the bridge and states that the administration of the railways in Canada shall be under one corporation.

MR. RUEL: For a time.

THE CHAIRMAN: Experimentally.

SIR JOSEPH FLAVELLE: You are making a fundamental change.

MR. RUEL: I am.

SIR JOSEPH FLAVELLE: I am not clear that you can entrust to any single executive the administration of any railway or company. There are two parties to the transaction. Without attempting to be over-smart or over-wise, it may be said that the presidents of these two systems have made no honest attempt to control reasonably the folly of the administration all these years.

MR. RUEL: Quite.

SIR JOSEPH FLAVELLE: Under the pressure of extreme circumstances they have both been tentatively doing something during a recent period. Now, it does not do to present the spectacle of the two railways as something that should have happened; it should not have happened to the extent that it has.

MR. RUEL: I quite agree.

SIR JOSEPH FLAVELLE: Therefore the interests of the other party to the contract, the whole community, are as supreme as the interests of the people who operate the railway.

MR. RUEL: Quite.

SIR JOSEPH FLAVELLE: And the interpretation of how those respective interests can be wisely dealt with so as to be fair to both parties is the art of all administration.

MR. RUEL: Certainly.

SIR JOSEPH FLAVELLE: Now, to pass from the most extreme form of one class of administration into the most extreme form of the other class of administration naturally challenges the query: These men having made damn fools of themselves, now propose to make a direct reversal of policy by agreement and "To hell with the public !"

MR. RUEL: Just so.

SIR JOSEPH FLAVELLE: That is the comment, and there is some force in it. Of course, men quite logically will say: You cannot unite two things that are fundamentally different; you cannot establish cooperation along with competition. You speak of competition being cursed, but unfortunately we have not yet discovered any other way in which the natural rapacity of mankind can be kept under control. That rapacity has to be curbed.

MR. RUEL: Quite so.

SIR JOSEPH FLAVELLE: If by some process of breeding we can develop a type of person to whom we can entrust the responsibility of trusteeship towards those whom he represents as shareholders and those whom he represents as users, that presents a different feature.

MR. RUEL: Yes.

SIR JOSEPH FLAVELLE: Then there is another aspect. I do not know whether this is serious or not but it has been among the queries that have come to me from time to time in relation to this problem: the possibility of a tremendous political machine.

MR. RUEL: I do not think so, because it is a merging of public and private interests.

SIR JOSEPH FLAVELLE: Granted. But you have a tremendous power in the executive.

THE CHAIRMAN: Look at it fifty years hence, supposing your scheme is successful and there is no diminution of it at the expiration of five years, at the expiration of fifty years you would have a pretty complete amalgamation.

MR. RUEL: Yes. Of course, there is nothing to prevent other traffic.

SIR JOSEPH FLAVELLE: You would make and unmake administrations; that is, there is a possibility of it, I will not say it is definite. I think we have gone to the extreme opposite.

MR. RUEL: Yes.

SIR JOSEPH FLAVELLE: We have so far rebelled against privilege in the past that we have gone to the extreme of what stupidly we call democracy until it in turn becomes really more tyrannical than privilege. Because privilege at least was educated so as frequently to have a sense of responsibility, whereas the demagogue -- the alleged democrat -- does not understand the meaning of responsibility except as it may afford him opportunity to satisfy his own desires.

MR. RUEL: Absolutely, we know that.

SIR JOSEPH FLAVELLE: Now, the plan which you propose gives to the country an opportunity of experimenting with the control of the railways. If you have sufficient capacity in the men who administer, there is not any question about the saving of money; that undoubtedly is the case. You won't break down on that side; you would break down on the public's interpretation of what you were doing for them.

MR. RUEL: Quite so.

SIR JOSEPH FLAVELLE: One of the great corporations concerned is a government property, and we all know that governments cannot very well exercise their judgment over expenditures. You have had some knowledge of the absence of government supervision, of immense capital expenditures in your own corporation during recent years, when gilded domes and all the rest of it resulted in lavish expenditures, and the pressure all the time from the public was to spend more money, not less.

MR. RUEL: You know, Sir Joseph, public ownership is an ideal. But it never functions as public ownership; it deteriorates into government ownership.

SIR JOSEPH FLAVELLE: And political ownership.

MR. RUEL: That is the same thing.

SOMMISSIONER LOREE: There are two other aspects of the matter that I should like to get a little more light on. Let us take the automobile industry. It is about twenty-five years old and is a very active, growing industry.

MR. RUEL: It is becoming vociferous.

COMMISSIONER LOREE: I was speaking of the machine itself more than anything else.

MR. RUEL: Yes.

COMMISSIONER LOREE: There has been just as much improvement in the machine in the last three years as in any period since its introduction.

MR. RUEL: Undoubtedly.

COMMISSIONER LOREE: That is the result of sharp and hard competition.

MR. RUEL: Yes.

COMMISSIONER LOREE: If Mr. Chrysler is going to make a success of his undertaking he has to bring out free wheeling, floating power, or something else, and all the other motor manufacturers feel that way. The consequence is the public has enjoyed the advantage of a highly improved machine.

MR. RUEL: Quite so.

COMMISSIONER LOREE: I have always felt that a monopolistic condition in the railroad industry would stop progress altogether, that there would be no longer any incentive for improvement. Some years ago I went over one of the German railroads to look at an experimental track. The road was not in good condition, and in those days none of the German railroads were in good condition. I was met at the station by two officers of the company, one in his office dress, the other in full uniform with white gloves and all the rest of it. He was younger and a subordinate officer, but very keen. After they got through showing me what they were doing they began to question me about American railroad practice. I pointed out the sodden condition of the property and the way in which we drained it, and the younger man said, "Why don't we take a stretch of three or four telegraph lines and try that out?" The older man said, "The government inspector will be along here some of these days and will ask us why we have got this track open." "Well," the younger man said, "We are rebuilding the south end of the yard here, we have got all our men there. We will say we have opened the track to do a little work on it and have not had time to fix it up. He may not be here for a couple of months." You get into that wooden state

of mind typified by the older man when you have a monopoly.

MR. RUEL: Yes, they found that in Australia when they ran into government ownership. They have government ownership in South Africa at the present time and it is working fairly well. It is largely a matter of personnel. As I said before, Sir Joseph, the whole thing is personnel.

COMMISSIONER LOREE: The other matter I had in mind was this: I cannot see the economies that would result from amalgamation. The New York, New Haven and Hartford is a monopoly road. It is a fairly well managed road, but it is not an example to the other railroads of the United States. There is a little road out in the south-west, the Kansas City Southern, 875 miles long. It has the third lowest operating ratio in the United States.

MR. RUEL: I do not doubt it.

COMMISSIONER LOREE: It is a highly competitive property.

MR. RUEL: Good management, personnel.

COMMISSIONER LOREE: Yes, I think so. I do not think monopoly has anything at all to do with economy. I think these things take care of themselves perfectly well. Under competition I see no trouble.

MR. RUEL: I will tell you where the trouble comes in. I see it almost every day with ourselves. Some trader will come along and want to locate on our lines. He goes to the industrial department and says, "What can you give me?" We say, "We have a piece of property out at so and so, and we will let you have that for such and such an amount." He replies, "That is no good, that is about \$50,000 too high. I can do better with the C.P.R." He



that about 1922, I think it was, and the effect of the amalgamation and coordination would be reflected in the accounts for 1925. You don't get it the first year, you get it two or three years afterwards. But we would not have moved up in the same ratio as the C.P.R. from 1923 to 1929 unless we had made these improvements and this consolidation. It is a part of our progressive scheme, and we profited by the work that was started in very early days. The amalgamation in itself does not accomplish anything unless you immediately make a survey of the whole situation and try to find out where you can save money by doing this and that, and that we are trying to do now. In the early days we were pretty good at that, but when we got rich we fell off.

THE CHAIRMAN: Have you any comment to make on Mr. Loree's suggestion that the effect would be to deaden the spirit of improvement in the art?

MR. RUEL: No. We know perfectly well that the situation is pretty nearly desperate, and I am trying to impress that on our people more and more every day.

THE CHAIRMAN: Quite so.

MR. RUEL: We know that unless we make a good showing, unless we come up to parliament with a better consolidated balance sheet next year, there will be trouble. The public will get the whole result of this amalgamation scheme if it is carried into effect, and they will say, "How much better is that than last year; how much have you saved; what have you done?" We have to show what we have done, we have to show we are really holding our own in efficiency and at the same time making a tremendous saving this way, that way,

and the other way. We have all to be on our toes to do that. And, mind you, we are keeping practically the entire working staff intact. We take off trains here and there, but the staff is, as I say, practically intact, and everybody will have to be on his toes to make a real showing if this thing is going to work out in the end. Esprit de corps is essential in any organization, it does not make any difference what the organization may be.

THE CHAIRMAN: I think Mr. Loree was thinking possibly of such a thing as the improvement of the steam engine.

COMMISSIONER LOREE: Yes.

THE CHAIRMAN: I suppose you would say: We rely on other people for that as for a good many other things, There is no competition here; there is plenty of competition in the United States.

MR. RUEL: For instance, one of our great competitors is the motor vehicle -- the bus and the truck. I do not think buses will ever pay, and I am not in favour of going into the business, for we have not a large population. But the truck business is something that we have to get into and give door to door delivery and pick up service, otherwise we are simply going to be pushed off the field. I have been yelling for years, "For Heaven's sake get into the business. We are losing traffic, two per cent last year, three per cent this year, and if we do not get busy we will lose very much more as the years go by."

COMMISSIONER LOREE: Are you losing l.c.l. business?

MR. RUEL: Yes, -- principally between Windsor and Montreal.

COMMISSIONER LOREE: Is it profitable?

MR. RUEL: It is not profitable to lose it.

COMMISSIONER LOREE: Is it profitable to operate at all?

MR. RUEL: We think we can by working a combination of rail and motor; not by operating on the highways alone, we think that is utterly impossible. We think we can give the people what they demand in that part of Canada -- not all over -- by a coordinated railway and highway service within zones of, say, fifty miles. We would give fast trips, prompt over-night service with no running through the freight warehouse, thus saving time.

SIR JOSEPH FLAVELLE: That means the government putting up a million and a half or two millions, whatever it may be, of initial expenditure.

MR. RUEL: No, sir. The expenditure will be about \$70,000.

SIR JOSEPH FLAVELLE: I notice that you have somewhere in the accounts I have been looking at a proposed expenditure running up to \$1,500,000 for experiments in truck transportation.

MR. RUEL: I do not think the credit will go through as far as that is projected. I am not in favour of that. I am in favour of using the local truck man as far as we can. It is no use trying to put him out of business. We have to have a certain amount of equipment, of course, but if we can coordinate rail and highway by allying to ourselves certain cartage systems and give a fast pick-up service and door-to-door delivery, I think we can get back a lot of the business.

I should like this Commission, if they see their way clear, to recommend that the railways be given power to operate trucks on the highways. It would be of great assistance to us, because some of the provinces are hostile and a recommendation from this Commission would help us along. We are contemplating getting into that business as far as we think it profitable to do so, but we want to find a profit if we can. That should be the policy of the company -- nothing to be gone into unless it shows a profit. We have not followed that policy heretofore.

SIR JOSEPH FLAVELLE: Of course, the point Mr. Loree raises is somewhat of general application, that where there is no pressure of internal need you follow the line of least resistance, and there comes a period when that is sufficiently pronounced that there is a --

MR. RUEL: Falling off.

SIR JOSEPH FLAVELLE: Well, there is a revulsion of feeling expressed somewhat in this way: We must get back to the old, expensive, troublesome, difficult situation of competition for the purpose of bringing these people to their senses.

MR. RUEL: There is that danger. That is human nature and it is very hard to overcome.

SIR JOSEPH FLAVELLE: In the very intelligent study that you have been making of this whole situation, Mr. Ruel, have you asked yourself how much of the economies that you hope to secure by your plan would be secured if the administrative personnel of the two great properties would give serious consideration to meeting the present intolerable condition by -- the terms are apparently contradictory --

by intelligent cooperation in competition?

MR. RUEL: Yes. Of course, I have been rather more modest than other people in that regard. For instance, if we pooled the passenger business, on that alone I think we would save \$5,000,000 a year; if we pooled the passenger business, the hotel business and the steamship business, probably we would be able to save about \$10,000,000; if we pooled all our businesses and ran our freight trains to full capacity all the time, stopped this foolish competition and could raise our rates a bit -- undoubtedly our rates have been driven down by competition -- I think we would save as much as \$30,000,000. I do not go as high as \$50,000,000.

SIR JOSEPH FLAVELLE: You mean for yourself?

MR. RUEL: Combined. I do not go as high as \$50,000,000; I cannot see it.

SIR JOSEPH FLAVELLE: You speak of having money to complete the hotels at Vancouver and Saskatoon. Why complete them?

MR. RUEL: I would not complete them at all.

SIR JOSEPH FLAVELLE: Why not leave them lie there? You have to pay interest on the investment, and in addition you would have to pay a loss on operation. Why operate them?

MR. RUEL: Because I think what would actually happen would be this: if we consolidate under this scheme we will shut up the Vancouver hotel and run the new one, which is a vastly better scheme.

SIR JOSEPH FLAVELLE: Shut up the Canadian Pacific Hotel?

MR. RUEL: Yes, because the Canadian Pacific is an

old hotel.

SIR JOSEPH FLAVELLE: But as a separate enterprise why go on and complete those two hotels?

MR. RUEL: Sir Joseph, I would never have gone on with them at all.

COMMISSIONER WEBSTER: Why was a \$4,500,000 hotel decided on for Saskatoon?-- with all due deference to Dr. Murray. I have not found an inhabitant of that city who thinks such an expensive hotel is necessary. When I asked one of the most important citizens, the moderator of the Union Church, what was behind the venture, whether it was politics, local influence or what, he said he did not know and nobody knew.

MR. RUEL: Of course not.

COMMISSIONER WEBSTER: He said the citizens of Saskatoon would have thought themselves well off with a million dollar hotel. He thought that a half million dollar hotel would have satisfied their needs for years to come. Now, some of us would like to know why such a thing was perpetrated.

MR. RUEL: Public ownership.

COMMISSIONER WEBSTER: Did you vote on that? You were a director.

MR. RUEL: We passed on it first on the basis of about one million dollars; we thought that would be the ultimate limit. We felt that an \$800,000 hotel was too expensive even for Charlottetown. But local pressure comes along. That is the disadvantage of public ownership; it is not public ownership, it is government ownership.

COMMISSIONER WEBSTER: Who brought the pressure to

bear in Saskatoon, was it politicians?

MR. RUEL: I would rather not answer the question. You know who it was.

COMMISSIONER LEMAN: Mr. Ruel, you made a statement a little while ago that I should like to have cleared up in my mind. You said the result that would be obtained by the new plan would be dependent to a certain extent on what the public would stand. By that statement had you in mind that anything the public might reasonably ask and ~~were~~ capable of paying for would be denied to them; or that a lot of services which are at present provided without being paid for would be curtailed?

MR. RUEL: I think we would be bound to curtail a great number of services, principally in the passenger lines. I do not see any curtailment possible in the freight lines, because all the freight being offered to both companies now would be handled by the one concern. The passenger service would be the one most heavily slaughtered, of course. The passenger service, as you know, is not a paying service; we lose, for instance, half a million dollars a year on dining-cars. I would curtail the dining-car service; I would put up just a simple seventy-five cent meal and "If you don't like it go without it." I think that would save a lot of money and probably put the dining-car service on a paying basis. That is only an example. I would curtail things of that kind that were not paying at all.

COMMISSIONER LEMAN: Had you anything in your mind which would closely approximate the sentiment that Sir Joseph mentioned, "The public be damned"?

MR. RUEL: No, because this concern is operating for five years only, or for so long as parliament keeps it going, and it would be a very serious blow both to the prestige of the organization and its management if parliament after two years decided they were not making good and chucked them out. They have to make good.

COMMISSIONER LEMAN: So you do not contemplate cutting reasonable service in any direction --

MR. RUEL: This is an emergency plan in which we have to save all we can; we have got to make a showing.

COMMISSIONER LEMAN: Without curtailing any necessary service?

MR. RUEL: Without curtailing unduly. If we go on the "public be damned" principle with this five-year scheme, we would find ourselves thrown out in three, because all the people would get after their members. We will have that trouble anyway.

COMMISSIONER MURRAY: There is the difficulty of the public accepting reductions.

MR. RUEL: There will be a cry immediately; that is what I say.

COMMISSIONER LEMAN: Would you effect economies whether the service was paying or not paying?

MR. RUEL: Only where it is not paying.

COMMISSIONER LEMAN: It is my impression that some of the people in this country have been paying for a lot of services that others have been getting.

SIR JOSEPH FLAVELLES: Of course, there was a prodigal effort to please because capital was so easy to get by loans, by advances or by guarantees.

COMMISSIONER LOREE: Mr. Ruel, this scheme is interesting and it is very elaborate.

MR. RUEL: It is simple though.

COMMISSIONER LOREE: When you get through with your five-year effort and everything, you save about \$30,000,000?

MR. RUEL: Per annum.

COMMISSIONER LOREE: Yes. Why don't you reduce wages fifteen per cent and save \$36,000,000 over-night?

MR. RUEL: I wish we could.

COMMISSIONER LOREE: Why not?

MR. RUEL: As far as the government railways are concerned, we would be ordered to cancel that in twenty-four hours.

COMMISSIONER LOREE: That gets down to a combination of both propositions on the ground that a democratic form of government is not competent to undertake any enterprise of this character.

MR. RUEL: Pretty nearly. I am not in favour of public ownership nor of government ownership. The C.P.R. might do it; we could not. We would not receive any support at all, we would be blackguarded all over Ottawa. We would not dare go on the streets, we would be chased out.

SIR JOSEPH FLAVELLE: Did I understand you to say that when you cut down your train service you would have to continue your staff?

MR. RUEL: No.

SIR JOSEPH FLAVELLE: I misunderstood you.

MR. RUEL: No, I merely said that in this combined scheme I would try to keep our principal officers that we could not afford to lose, men like Vice-President Hungerford,

Mr. Vaughan, and others.

COMMISSIONER MURRAY: But you would not have, for instance, a colonization department?

MR. RUEL: No, nor the radio business. I would eliminate those things immediately.

COMMISSIONER MURRAY: If this organization were to carry out Mr. Loree's suggestion would parliament have power to order it to be cancelled?

MR. RUEL: Parliament has wide powers. Any act which is passed by parliament is capable of being revised, amended, altered or changed by parliament at pleasure. Nothing you can put in here is binding on parliament.

THE CHAIRMAN: Not only that, your whole budget depends on the minister.

COMMISSIONER LEMAN: But supposing the arrangement were in the form of a lease?

MR. RUEL: An entrusting agreement is better than a lease. All I am doing here is making the company just a ship's husband, which is the nearest illustration I can give you.

COMMISSIONER LEMAN: But you say what parliament does one year it can cancel and destroy the following year.

MR. RUEL: Yes.

COMMISSIONER LEMAN: All right. But can it break a contract?

MR. RUEL: Oh yes, instantly.

COMMISSIONER LEMAN: Without damages?

THE CHAIRMAN: Yes.

COMMISSIONER LEMAN: Without remedy to the parties affected?

THE CHAIRMAN: Absolutely without remedy. Not only can parliament break a contract, they can fasten a contract on you.

We will assume for the moment that, broadly speaking, your scheme is accepted. Now, how would it work out as you conceive it between the Canadian Pacific and the government in the matter of revenue?

MR. RUEL: In the first place, you have to take this the same way as we did the old Grand Trunk. When we were negotiating with the Grand Trunk they said to us, "We have always earned the dividend -- not our fixed charges -- on what we call our guaranteed stock, and therefore the government should guarantee that we will always get this in future, no matter how you may mismanage or tear the Grand Trunk apart." That was agreed to by the Crown as a basic principle, and consequently we did guarantee that stock. Then we went into arbitration, you will remember, with respect to the first, second and third preference stocks. They said, "We have got cash payments, not very large, and therefore these stocks have some value. We will arbitrate as to their value." The arbitrator said, "There is no value in those." The basic principle recognized was that all the stocks that had never defaulted should be taken into account.

Now, the C.P.R. has always paid its fixed charges. And, mind you, the Canadian Northern always paid its fixed charges up to the time of the war. It is a peculiar thing, but people do not seem to know that. It never paid anything on capital account because it put the money back into the property. The Canadian National has never paid anything on capital account. Only in October, 1928, did it actually

earn its operating expenses, taxes and everything; but taking the twelve month period, those earnings were sunk; that was the only instance. You might therefore say that the Canadian Pacific is entitled to get the whole of its fixed charges as a basic principle. The Canadian National possibly has not had as much earning power and there is no reason why it should get the same amount. Therefore we say, putting the Canadian Pacific at one hundred per cent, the Crown might get eighty or seventy per cent, whatever you think is fair. I leave that to Sir Joseph -- he is the best accountant that I know.

Then after you have settled what should go to the Crown, say seventy per cent, you take your balance and say, "That will provide such and such a percentage to the C.P.R. for its dividend." Very good. Suppose we say we will give them four or five per cent, whatever it might be -- that is per annum, not per quarter; then we will give the government lines the same proportion as we gave them of the first payment. If anything is left over you set aside an amount for depreciation, and possibly after satisfying that you will have a bit left and can give a little more to the C.P.R.

SIR JOSEPH FLAVELLE: Where would you peg the value of that portion of the securities guaranteed or paid for by the government; under existing conditions what portion of them would go into the public debt of Canada and be taken from the railway, and what portion would remain?

MR. RUEL: I went into that some years ago when we had Mr. Gaston in charge of our finances. I drew up a bill for him for a consolidated balance sheet which would have changed the picture very considerably, largely by eliminating

figures in the consolidated balance sheet for which there were no assets existing at all. There were quite a lot of items of that kind.

COMMISSIONER LOREE: Suppose a man said: I contemplate buying your system with full power to tear up the lines that are not self sustaining, so when I get through I will have a property that is an operative property and one on which I can make some money; I have examined your operating accounts and your capitalization, and I think I can afford to pay you so much for the property. What sort of answer would he get?

MR. RUEL: I think that would be a very desirable thing from the point of view of Canada, but until the people are better educated than they are today you would never get the project through parliament.

COMMISSIONER LOREE: Will this experience that they are going through educate them?

MR. RUEL: I am hoping so.

COMMISSIONER LOREE: So he had better delay his offer.

MR. RUEL: Yes.

COMMISSIONER MURRAY: Assuming that the people did consent, what would be a fair value?

MR. RUEL: Ah ! A large question. I would say, first, they would have to assume certain outstanding obligations, and after that I doubt if there would be anything left of value. The property is not saleable at any reasonable figure at the present time. And you would not sell your house today if you knew the price was going to rise a few years hence.

COMMISSIONER MURRAY: Is the physical property of the C.N. more valuable in this plan than that of the C.P.R.?

MR. RUEL: The two are about on a par. This is a difficult thing. We have a whole lot of consolidated lines that were built in competition with each other. The C.P.R. were wise in their day and we were not. As they saw a line could be safely built into a certain territory they built that little line and knew they were going to make money from the day they opened it for operation. And so with the Canadian Northern; if the war had not come it would have been perfectly successful still under its own management.

Mackenzie and Mann were caught at a time when they had a lot of securities out, and they had to go down, but had it not been for the war the Canadian Northern would still be in the hands of Mackenzie and Mann. With the exception of two or three branch lines which were no good, the Halifax and South Western, the Quebec and Lake St. John, and the Canadian Northern Quebec, they were never profitable at all, and possibly the Vancouver line, which was built a little bit ahead of its time, the whole organization would have paid very well.

COMMISSIONER LEMAN: Why did the war put the C.N.R. out of business? It did not affect the C.P.R.

MR. RUEL: The C.P.R. was a going concern, it was completed; all it required to do was year by year to add a little branch line here or there to meet the requirements of the community.

COMMISSIONER MURRAY: You say the Canadian Northern was paying its fixed charges.

MR. RUEL: It never failed to earn its fixed charges.

COMMISSIONER MURRAY: You make a distinction

between paying and earning?

MR. RUEL: No, it paid them. For instance, we had a line running to Regina; it did not run into Regina.

THE CHAIRMAN: An unfinished line?

MR. RUEL: Yes, there were a number of those lines; for instance, the line from Montreal to Port Arthur, the line running down to Vancouver, the line running to Calgary, the line running to Nelson -- all these were not finished. We had a whole lot of securities out to enable those to be finished, and they were pledged usually with the banks; some were pledged over in England, some on this side. We had not sold those securities. Sir William used to go over to England every now and then and was wonderfully successful in selling his securities, being able to show that the Canadian Northern had never made any default. The stock of the Canadian Northern actually sold at 104, showing the standing of the organization at that time. The war came on; we had those lines unfinished; we could not sell four per cent and three and a half per cent bonds; the banks would not let us have any money, we could not complete any of those unfinished lines; until completed they could not be opened for traffic -- we were hamstrung.

SIR JOSEPH FLAVELLE: If in 1903 the government of the day had said to Sir William Mackenzie and Charles M. Hays, "Whether you like it or not we will knock you together, treating the Canadian Northern as the western half and the Grand Trunk as the eastern half," we would not be sitting here to-day.

MR. RUEL: No, we would have saved millions.

THE CHAIRMAN: Would you mind repeating your

suggestion, Mr. Ruel, as to possible dividends to the Canadian National?

MR. RUEL: That is the division of the net operating earnings?

THE CHAIRMAN: Yes.

MR. RUEL: I said in the first place you might set aside enough to pay the C.P.R. fixed charges, because they have always earned them.

SIR JOSEPH FLAVELLE: They have earned their preferred dividend too.

MR. RUEL: I am coming to that, but I say that before you give your dividend to the C.P.R. some amount should be set aside to meet the government expenditure, because presumably the savings are equal on both lines.

SIR JOSEPH FLAVELLE: Take that portion of the government's liability at the same amount as the liability of the Canadian Pacific, \$450,000,000.

MR. RUEL: No, I am not taking as much as that. I say because we have not earned in the same ratio as the C.P.R. earned, we should not get one hundred per cent of the first payment, we might get ninety-five, ninety, eighty-five, eighty, or seventy-five per cent.

THE CHAIRMAN: That is, you get eighty per cent or some other proportion of the C.P.R. amount?

MR. RUEL: Yes.

THE CHAIRMAN: You pay the C.P.R. one hundred per cent, and that is your datum.

MR. RUEL: Yes.

THE CHAIRMAN: From that you decide how much goes to the Canadian National?

MR. RUEL: Yes, That is the second thing. Then you come back and say: We have got to set something aside for the C.P.R., one, two, three or four per cent, to enable them to pay a dividend to that amount, or possibly up to five per cent, whatever it may be depends on how much savings we have to make. That is where the spur comes -- we have got to make that dividend. After you have paid that five per cent, and before you give them anything like ten per cent, you must give a certain amount to the Crown on account of its earnings.

THE CHAIRMAN: There again it is a certain percentage of what you give the C.P.R., not dependent upon or necessarily involving determination of the capitalization?

MR. RUEL: No. The picture is all wrong; we all know it.

THE CHAIRMAN: Yes. It is a certain percentage of what you give the C.P.R.?

MR. RUEL: Yes. We know we are not in the same earning capacity, therefore the government is not entitled to get the same ratio. Then if anything is left over after giving the Canadian Pacific five per cent or four per cent-- that has to be considered -- we have to set aside something for depreciation.

THE CHAIRMAN: I would have thought you would set up depreciation before starting in on the dividend.

MR. RUEL: That is desirable, but it would be very hard to get the C.P.R. to agree. I am trying to look at things that are practical.

THE CHAIRMAN: Quite so.

MR. RUEL: After setting up depreciation, if there

is anything left over we give it to the C.P.R. for their dividend.

THE CHAIRMAN: The whole thing is dependent on arrangement?

MR. RUEL: Absolutely on consent.

THE CHAIRMAN: And these are suggested lines of arrangement which might be very much modified on negotiation.

MR. RUEL: Probably changed entirely.

COMMISSIONER LOREE: As I understand it, Mr. Ruel, what you call depreciation is what a certain American engineer called impact of adaptation.

MR. RUEL: Yes, the same thing.

COMMISSIONER LOREE: It is money set aside which brings in no return because of its application.

MR. RUEL: Yes. The very first thing they might say is this, possibly. We have a line between Montreal and Toronto double tracked; it will not be necessary to keep the C.P. line there up to the highest standard, and we could let it depreciate forty per cent. Then when we tear apart we have to restore it out of that fund.

COMMISSIONER LEMAN: Would you mind translating that, giving us your views as to distribution simply as an estimate of what you think would be fair?

MR. RUEL: I would be horrified to attempt any such thing as that, because I am merely a lawyer like Judge Duff.

THE CHAIRMAN: We are alleged lawyers.

COMMISSIONER LEMAN: You have, I take it, some able men in your Department of Finance.

MR. RUEL: Yes. I may ask Duncan Grant for instance, to study that and suggest what he might do.

Or the president might like S. W. Fairweather to handle it; he is a very capable chap.

COMMISSIONER LEMAN: You are all very capable, Mr. Ruel.

MR. RUEL: We have a lot of capable men in our organization.

COMMISSIONER LEMAN: Undoubtedly you have a set-up there which would be the basis of further study.

MR. RUEL: That has never been considered --

COMMISSIONER WEBSTER: Mr. Ruel, as I gather, the present arrangement would still go on as between the government and the C.N.R., you would still have to milk the government yearly?

MR. RUEL: I am afraid so.

COMMISSIONER WEBSTER: There is \$57,000,000 in fixed charges to the public now.

MR. RUEL: Yes.

COMMISSIONER WEBSTER: Your scheme would not materially reduce that?

MR. RUEL: I think it would materially reduce that, yes.

COMMISSIONER WEBSTER: You save \$30,000,000 for both railways?

MR. RUEL: Yes.

COMMISSIONER LEMAN: But the \$30,000,000, as I understood, would be only on the basis of cooperation, not on the basis of your scheme; the basis of your scheme visualized larger economies?

MR. RUEL: That is quite right, it might, but --

SIR JOSEPH FLAVELLE: I gathered you were more

conservative.

MR. RUEL: Yes, I did not see \$50,000,000.

COMMISSIONER WEBSTER: So that as far as Parliament is concerned the picture would not be materially altered, would it?

MR. RUEL: No, Parliament would still have to set up some kind of fund each year.

COMMISSIONER WEBSTER: That is what they are complaining about now.

MR. RUEL: I know, but if they can go back showing a reducing figure each year instead of an increasing figure-- that is what gives us a pain. They know very well that the reduction in these years means that we are simply not maintaining the property as we should either in equipment or right-of-way; they know that is not a good thing, because it is very difficult to overtake deferred maintenance. The C.P.R. are suffering in the same way; they are deferring maintenance to a very great extent. But you reach the limit where you cannot defer maintenance any further.

SIR JOSEPH FLAVELLE: It is a very serious difficulty at the moment. The government have now to take care of certain obligations of the railway by providing capital. That is very embarrassing.

MR. RUEL: It is a menace at the present time.

SIR JOSEPH FLAVELLE: Indeed it is. You are asking for a rather considerable sum for capital expenditures during this year.

MR. RUEL: We are -- we have to.

SIR JOSEPH FLAVELLE: When you say you have to, you know there is a place where you have only two meals a day or one meal a day under certain circumstances?



MR. RUEL: Yes. One meal a day is not very sustaining but it would keep you alive. This year we are putting in only such things as are necessary for the public safety -- nothing else; such things as repairs to trestles or arches that are not safe. Public safety is the principle governing expenditures this year, and I think quite reasonably so.

SIR JOSEPH FLAVELLE: But being abstemious is good for the health.

MR. RUEL: It is good for anybody. I thought we would be abstemious after the awful collapse of the Grand Trunk Pacific, but the public never noticed it.

THE CHAIRMAN: Mr. Ruel, you were good enough to say that you would go over this Bill with us.

MR. RUEL: Yes.

THE CHAIRMAN: I would suggest that we resume at half past two for that purpose.

MR. RUEL: Yes.

At 12.50 p. m. the Commission adjourned.

(Mr. Ruel's Emergency Plan.)

Mr. Mac1's
Suggested emergency plan of co-operation
between principal Canadian Railways, to meet existing
troubles.

In the first place, Parliament would form a managing company. You could call it "Canadian Co-operating Railways", or "The Canadian Railways Company", or any other suitable name.

The Company would not have any stock, nor any stock qualification for the Directors.

There would be ten Directors. The Governor in Council would nominate five, the C.P.R. would nominate five. Vacancies would be filled by the party appointing the person whose retirement caused the vacancy.

The head office would be in Montreal.

The Directors would be paid such sums as would be approved, and there would be a provision in the By-laws for an Executive Committee of four or six.

In this memorandum we will call this Company the Managing Company.

As soon as the Managing Company is organized a list would be made up of the Companies in the Canadian National Railways which should co-operate, and a similar list of Companies in the Canadian Pacific Railway System, and each of these Companies so listed would execute entrusting agreements in the form set out in the Act whereby the Managing Company would be entrusted for management and operation in every particular with the whole of the undertaking and works of the respective Companies so executing, and with all their powers, rights and franchises, subject, of course



to the provisions of the Act and to all statutes, obligations, contracts, agreements or duties, not inconsistent therewith, and so on.

In like manner the Governor in Council would execute an entrusting agreement in similar form, with appropriate changes, of the whole or any part of the Canadian Government Railways which it was deemed expedient to entrust to the Managing Company for management and operation.

All of the Companies, including the Crown, executing entrusting agreements will be called in this memorandum the Owning Companies.

Provision would be made for adding new Companies from time to time if it were deemed expedient, and, with the consent of all the parties, of withdrawing Companies from the combined enterprise if their undertakings and works appear to be no longer of value to the co-operative enterprise.

The entrusting agreements would continue in force for a period of five years and thereafter until Parliament authorises their cancellation. Upon cancellation each of the Owning Companies would be restored to the full management and operation of its respective undertakings and works as then existing, with all their respective rights, powers and privileges unimpaired, save only in so far as modified, impaired or improved by virtue of the administration of the Managing Company.

The Managing Company would be directed by the statute creating it to conduct the management and operation of the various undertakings and works entrusted to it as one undertaking or combined enterprise in order that duplication of services should be avoided, consistent with the

reasonable requirements of traffic, and that all unnecessary extravagance and unreasonable expenditure should be curtailed. It would be given power to curtail, alter or discontinue any services or facilities, and the Board of Railway Commissioners would be instructed to co-operate in the reasonable furtherance of this purpose.

There would be a more detailed allocation of the powers of the Managing Company with respect, for instance, to the making of tariffs or tolls, the fixing of salaries and compensation, the making of leases or licenses, not exceeding five years duration, and the negotiation or sales of properties, although, of course, the Managing Company could not sell any property, and there would be provision that all such matters and things could be performed by the Managing Company in its own name or in the name of the Owing Companies affected, at discretion.

All the officers and employees engaged in the management of the undertakings and works so entrusted would continue to be officers and employees of the respective Owing Companies, even though paid by the Managing Company from the moneys controlled by it.

The Managing Company would be instructed to keep accounts necessary in the interests of the respective Owing Companies, and to keep consolidated accounts showing income and expenses incidental to the operation and management of all the undertakings and works entrusted to it by virtue of the statute. After payment of all working expenses and making provision for working capital the Managing Company would divide the net operating income among the Owing Companies on some approved formula which the present Royal Commission on Railways could be asked to

suggest.

The Managing Company could not, of course, sell any lands or interest in lands forming part of the undertakings entrusted to it. That would be a matter for the Boards of the Owning Companies.

During continuance of the entrusting agreements the Boards of Directors of the respective Owning Companies would be reduced to three members, that is, just a skeleton organization.

The offices of the President and Chairman would be separate. The Directors appointed by the C.P.R. or the Canadian National would agree among themselves which group should in the first place nominate the President. The other group for the same year would nominate the Chairman, and the positions would alternate in each succeeding year.

Capital expenditures would require the approval of the Owning Companies affected.

Security issues for the purpose of capital expenditures would be made by the Managing Company and guaranteed by the Canadian National and Canadian Pacific jointly and severally.

Each Owning Company participating in the proceeds of any issue would be required to put up its own securities with the Managing Company to the extent of its participation and to pay the principal and interest thereon. The Managing Company would apply these payments against its own indebtedness under the guaranteed securities.

There would have to be a provision respecting the bringing of actions or suits against the Managing Company, and a section providing for the winding up of the Managing

Company upon cancellation of the entrusting agreements, also upon winding up some formula should be provided for the payment of compensation to any Owning Company for deferred maintenance to which such Owning Company might be entitled.

Existing joint ownership agreements would be suspended during the continuance of the entrusting instruments.

Such Companies as the Northern Alberta and the Toronto Terminals Railway, which are owned jointly by the Canadian National and Canadian Pacific, should also entrust their undertakings and works to the Managing Company.

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That is practically the whole of the plan. Its object, as can easily be seen, is to provide for maximum economy through joint operation of all services. It is for a limited period only, capable of being cancelled at a time when Parliament thinks we have had enough of it, and the Owning Companies are then to be restored to their original position. No cash payments are involved.

Judges Conference Room,
Supreme Court of Canada,
Wednesday, February 17, 1932.

AFTERNOON SESSION

The Commission met at 2.30 p.m.

MR. RUEL: The next part of the programme is the bill which Sir Henry Thornton presented and which I drew up, based on the presentation which he made to the Commission.

The first part deals with the organization of the Canadian National Railway Company. It simply means that the present board of directors would be abolished and a new board appointed, largely based upon ability. We have three official directors, as I said before, and then the remaining seven directors are appointed by the two houses of parliament. In the terms of the draft bill, "the remaining seven directors shall be nominated by joint resolution of the two houses of parliament and shall be appointed accordingly." The idea Sir Henry had in mind in that connection was to get away from a political board. If you have a board of one political stripe which is necessarily thrown out as soon as the government in power goes out of office, and a board of another political stripe comes in, you simply get an organization that is peculiarly subject to government control. So his idea was that the two houses of parliament should join in the matter; they would at least have members on both sides of the house, possibly from the three parties, and to that extent you would get away from political interference.

The second part relates to cooperation. It provides that notwithstanding anything to the contrary in any statute, the National Company and the Pacific Company in the interests of economy shall adopt forthwith, or as soon as practicable, such cooperative measures, plans and arrangements as shall, consistent with the proper handling of traffic, be best adapted to the removal of unnecessary, wasteful or uneconomical services. In other words he says to the two organizations: You have to get together and take these cooperative measures. When you have two organizations working still in a competitive way it is very difficult to make them come together and adopt reasonable proposals. For instance, we have gone to the Canadian Pacific at different times and said: "We are losing money on such and such a train; you are probably losing money on your train; can we not take one of them off?" They would say: "You want us to take off the half past three train say from Ottawa to Montreal? Well, that is our best train, and we are not going to take it off. You can take yours off." But we say: "No, that is our best train."

COMMISSIONER LEMAN: If the super board eliminated wastefulness it would mean that some services would be affected and some interests hurt.

MR. RUEL: Yes.

COMMISSIONER LEMAN: And won't the impression become widespread in the public mind that the thing is dominated by the Canadian Pacific, so that you will have the same criticism and disadvantages without the economic advantages?

MR. RUEL: I am afraid of it, yes. This scheme

does not seem to me to be sufficiently effective, in that there is no power, except in the overriding board -- what I call the appellate board or commission -- to order anything; it has got to be by agreement. One of the parties has to come in as a complainant.

THE CHAIRMAN: First there is an instruction to get together.

MR. RUEL: Yes -- it is more in the nature of a pious wish.

THE CHAIRMAN: I do not suppose that is much more than a declaration of hope.

MR. RUEL: Yes. "In the event of any failure to agree, either the National Company or the Pacific company may submit to the Commission constituted by Part III of this Act, any question in dispute arising under this Act."

SIR JOSEPH FLAVELLE: That is, you form a commission with power to review?

MR. RUEL: Yes, that is the appellate commission provided for in Part III.

THE CHAIRMAN: Paragraph 2 of Part II says:

"Any such measures, plans or arrangements may where deemed desirable, include or be effected by means of --"

MR. RUEL: Yes; that is we can form a new company, if we wish, with the stock controlled.

THE CHAIRMAN: Dealing either with the whole of the undertaking or with some part of it.

MR. RUEL: We did that in connection with the Northern Alberta Railways -- formed a new company and divided the stock. Then we can lease or make terminal agreements with each other, arrange for joint trackage

or joint running rights. The reason I put in that phrase, "notwithstanding anything to the contrary in any statute," is that there are a great many things in the Canadian Northern statute which would prevent us from doing the very things which are authorized here.

COMMISSIONER LEMAN: The super board would be guided merely by considerations of public interest?

MR. RUEL: Quite; that is what they are supposed to be guided by.

COMMISSIONER LEMAN: But with no financial responsibility, no political responsibility?

MR. RUEL: That is one of the great objections I have to the Act. Control by a body that has no financial responsibility is not a wise control. I found that over and over again in the Board of Railway Commissioners in former days -- not so much at the present time, because they are not ordering anything; but they would go round the country and almost invite people to make applications for subways. They do not care how many subways they order, but we care; we have to provide the money. They are just catering to public pressure, as it were. I do not believe at any time in giving power without responsibility.

COMMISSIONER LEMAN: In the realm of economics do you know of any other responsibility but financial or political?

MR. RUEL: No, only those two. The Commission is given the same powers and authorities for the purposes of this Act as are vested in the Board of Railway Commissioners; it is practically setting up a Commission which can do the very things the Board of Railway Com-

missioners can do at the present time. If it is said that the Board as at present constituted is no good, the answer to that is, fix up a board so that it is good.

THE CHAIRMAN: The impression I got was that it was proposed that the members of this appellate commission should hold office on the same tenure as judges. Of course if they are merely appointed at pleasure it would be next to useless.

MR. RUEL: Exactly.

THE CHAIRMAN: There would be no protection against political pressure.

MR. RUEL: No. At the same time, I do not see any great advantage in appointing them for a term of ten years, for instance, because before that time expires the whole thing may be changed; the Board of Railway Commissioners may be constituted in such a manner as to carry the confidence of the country. I am not saying, of course, that the Board is not competent; I think it is. I think Judge Fullerton is a very capable man.

COMMISSIONER LEMAN: Would there not be conflict between the Board of Railway Commissioners and this appellate board?

MR. RUEL: To the extent that there is conflict, this would set aside the powers of the board. That is provided for in section 14 of Part III:

Where under the provisions of the Railway Act the approval or sanction of the Board of Railway Commissioners for Canada, or of any other tribunal, is necessary in connection with any cooperative measure, plan or arrangement authorized under this Act, such

approval shall be obtained in ordinary course, unless the approval or sanction thereof by the Railway Appellate Commission is obtained, in which latter case further approval under the provisions of the Railway Act may be dispensed with.

In other words, the appellate commission has overriding power. You do not have to go to the Board if you get the approval of the appellate commission. I had to put that in, because one commission had to override the other; you could not give them concurrent jurisdiction.

SIR JOSEPH FLAVELLE: The purport of this bill, Mr. Ruel, I take it, is to set up a supplementary organization which will seek to regulate differences of opinion between the railways which are cooperating while still competitive?

MR. RUEL: Quite.

SIR JOSEPH FLAVELLE: Would it not be well to have the whole document read over, so that we may see what the purport of it is?

THE CHAIRMAN: The first part is very simple.

MR. RUEL: The first part deals simply with organization.

THE CHAIRMAN: Part III is really the vital part.

MR. RUEL: Part III reads:

6. In this Part, unless the context otherwise requires,

(a) "Commission" means the Railway Appellate Commission appointed under this Part.

(b) "National Company" and "Pacific Company" mean respectively the companies mentioned in Section 4 of this Act.

These are the companies which are supposed to get together.

7. There shall be a Commission known as the Railway Appellate Commission consisting of three members appointed by the Governor in Council.

(2) Such Commission shall be a Court of Record and have an official seal which shall be judicially noticed.

(3) Each Commissioner shall hold office during the pleasure of His Majesty.

(4) One of such Commissioners shall be appointed Chief Commissioner. Two Commissioners shall form a quorum.

(5) The Commissioners may reside in any part of Canada and need not give the whole of their time to the performance of their duties nor be debarred from accepting or holding other offices or employment.

8. The Commissioners shall be paid such salaries as may be fixed by the Governor in Council. The salaries shall be paid monthly out of the unappropriated funds in the hands of the Receiver General for Canada. This is very similar to the constitution of the Board of Railway Commissioners.

The officers, clerks and employees attached to the Commission may be paid such salaries as may from time to time be fixed by the Governor in Council out of such money as may be appropriated by parliament for the purpose, including all actual reasonable travelling expenses of the commissioners and such members of the staff of the Commission as may be required by the Commission to travel, necessarily incurred in attending to the duties of their office.

That is the same as the Board of Railway Commissioners.

Now, this is the effective clause:

9. The Commission shall have full jurisdiction to inquire into, hear and determine, any application by or on behalf of either or both of the parties mentioned in section 5 of this Act requesting the Commission to make any decision or order or to give any direction, leave, sanction or approval with respect to -

- (a) Any cooperative measures, plans or arrangements made or proposed to be made under this Act.

That is, you may get it sanctioned, but if you do get it sanctioned you do not have to go to the Board.

- (b) Any dispute arising under the provisions of Part II of this Act.

That is, if the Canadian Pacific or ourselves have refused to enter into a scheme which the applicant party thinks is a perfectly reasonable scheme.

- (c) The expediency of putting into effect or of refraining from putting into effect, in whole or in part, any cooperative measures, plans or arrangements made or proposed to be made by virtue of Part II of this Act.

That is, where there is no agreement -- although we agree on the general principles, we cannot agree on what should be carried into effect.

- (d) The application of any such measures, plans or arrangements to any works or undertakings or parts thereof, of the National Company or the Pacific Company, or both

What that means is self evident.

- (e) The terms and conditions of any such measures, plans or arrangements, and the interpretation or meaning thereof.

That is rather important, because although we may make an agreement we may disagree on what we mean.

- (f) Any complaint that the provisions of any such measures, plans or arrangements are not being observed or properly observed by the other party thereto, or in accordance with the true intent and meaning thereof.

That is probably the clause that will be consulted more than any other -- applications arising under that.

- (g) The enforcement of the observances or performance by either party of all such provisions.

10. The Commission shall also have full jurisdiction to inquire into, hear and determine, any application made by or on behalf of any railway company within the jurisdiction of parliament for authority to make a public issue of any capital stocks, whether preference or common, or of any bonds, debentures, debenture stock, perpetual or terminable, or other securities whatsoever, and whether for the purpose of capital expenditure or otherwise, and no such company may, notwithstanding anything to the contrary in any statute or law, validly make any such issue without first obtaining from the Commission a certificate that such issue is necessary and in the public interest.

This one is rather different -- this was suggested years ago by Mr. Blair when he was Minister of Railways; I used to be under him in the Railway Department. Obviously

this provision does not interest the Canadian National, because we have to do all these things now. Under the law as it stands, the Governor-in-Council have absolute control of every issue of debentures or securities of any kind that we have; therefore that is merely aimed at the Canadian Pacific or some other railway company in Canada.

SIR JOSEPH FLAVELLE: If the Canadian National is operating in the future as at present, one would think experience has established there must be some supervising body which will prevent contracts being made or obligations being incurred without their approval.

MR. RUEL: And commitments being made, which are worse.

SIR JOSEPH FLAVELLE: Yes. These must all be preceded by authority.

MR. RUEL: Quite right.

THE CHAIRMAN: That comes later in this scheme, doesn't it -- I mean, the budgeting?

MR. RUEL: The budgeting does, yes.

THE CHAIRMAN: I am thinking of the control of expenditures.

MR. RUEL: We have appointed what we call a finance committee -- we did that only a year ago -- consisting of the president, Mr. Smart and myself, and we have to approve every item of expenditure over \$100.

THE CHAIRMAN: Clause 10 deals with securities, that is to say with the issue of shares, debentures, and so on?

MR. RUEL: Yes.

THE CHAIRMAN: And the question of expenditures is dealt with in clause 11?

MR. RUEL: So far as it is the Canadian National Railway, yes. Clause 11 reads:

Upon the capital budget of the National Company being approved by its Board of Directors it shall be submitted to the Railway Appellate Commission, and the Commission shall thereupon inquire into the accounts of the railway operations for the preceding year, and all other matters and things which the Commission may consider incidental thereto.

THE CHAIRMAN: That is the capital budget?

MR. RUEL: That is the capital budget, our annual budget. We make that up, of course: we make an estimate of what our resources are to be, we say what capital expenditures we expect to make, and then we arrive at our estimated deficit for the year.

THE CHAIRMAN: I suppose there is something here depriving the company of the power to make any additional capital expenditures outside the budget?

MR. RUEL: We have no power at all outside the budget at the present time.

SIR JOSEPH FLAVELLE: You make commitments?

MR. RUEL: Yes.

SIR JOSEPH FLAVELLE: Have you got the word "commitments" in here?

MR. RUEL: No.

SIR JOSEPH FLAVELLE: You need the commitments in.

THE CHAIRMAN: Contracts.

SIR JOSEPH FLAVELLE: It is not contracts; it is commitments, perhaps made verbally; sometimes expenditures undertaken.

MR. RUEL: Yes; and we are told, "well, I am afraid it has got past that; we have agreed to that."

SIR JOSEPH FLAVELLE: You bought two ships on that basis.

MR. RUEL: We bought a lot of things on that basis. To continue with paragraph 11:

The Commission shall also inquire into the probable resources of the National Company for the ensuing year and the details of the budget so submitted, hearing such of the officers of the National Company and calling for such information with regard thereto as the Commission may consider necessary.

(2) Upon such inquiry being completed to the satisfaction of the Commission it shall issue to the Minister of Railways and Canada a certificate specifying its approval or disapproval of the said accounts and of the said budget. When disapproval is specified with regard to any items of the accounts or budget the Commission shall add to its certificate a short statement of the items disapproved and of its reasons for disapproval.

The purpose of that section, as anyone can see, is largely to get away from this parliamentary committee which meets every year and goes into our expenditure. I should think that if this went through there wouldn't be any necessity for it.

SIR JOSEPH FLAVELLE: Do you not think that in the preparation of this budget it would be advisable to have present a representative of the Minister of Finance?

MR. RUEL: No, that has not been the practice. The Minister of Finance is always called in, of course,

in the matter of making a public issue of securities, but that has been the practice rather than the rule. There is no objection to it in the slightest; it is a good thing.

SIR JOSEPH FLAVELLE: I think in addition to the Minister of Railways you should have a representative of the Finance Department.

MR. RUEL: The Finance Department is always represented when we open tenders for the issue of securities. Of course the Governor-in-Council authorize the issue, fix the form, the terms, the nature of the guarantee, and all that kind of thing; and they authorize us to go to issue and ask for tenders. When we get the tenders they are opened usually by Duncan Grant, a member of the Finance Department, Mr. Roberts and myself. Then after we have opened them we get in touch with the Minister of Railways and the Minister of Finance and get their approval before we accept the tender. That is the present practice.

SIR JOSEPH FLAVELLE: I am thinking of it at a prior stage, not when the thing reaches the point of authorization, but when the matter of certain capital expenditure is first considered.

MR. RUEL: That is already covered. We prepare our annual budget, involving an issue of securities, we will say, of \$60,000,000. Then we add such items as branch lines, Montreal terminals, Toronto terminals, and so on, say to the amount of \$10,000,000. We go to the Governor-in-Council with the aggregate amount and say we want to make an issue of \$70,000,000. That is made up in the budget of so many millions for branch lines, so many millions for Montreal terminals, so many for

Toronto terminals, and so on; then we issue to that amount, based on the authority of the Governor-in-Council.

THE CHAIRMAN: With reference to paragraph 11, I am not sure that the effect of it would not be to disable you from contracting except for an expenditure in the particular year in which the contract was made.

MR. RUEL: The budget would be approved.

THE CHAIRMAN: In the absence of approval of the budget -- you could not really bind yourself.

MR. RUEL: We always put in what we call unforeseen expenditures.

THE CHAIRMAN: I do not mean that exactly. Suppose you were entering into the contract for the building of a hotel, which was spread over a period of years; I doubt whether the Commission could bind itself.

MR. RUEL: When we do make a contract for the building of a hotel we put in a clause making it contingent upon the money being provided.

COMMISSIONER LEMAN: Doesn't the government proceed very much in that way?

MR. RUEL: It does.

THE CHAIRMAN: I do not think they always do.

MR. RUEL: Yes, they do. That was my practice in the Railway Department.

THE CHAIRMAN: I am afraid we have had many contracts without any contingent clause.

MR. RUEL: That was the invariable rule in the old days.

THE CHAIRMAN: It is done under statutory authority, though.

MR. RUEL: Exactly -- just put in a clause that

that when the money voted by parliament runs out the work is necessarily postponed without any claim for damages.

COMMISSIONER LEMAN: I am under the impression that contracts entered into by the Department of Public Works and Department of Railways and Canals, as well as by some of our provincial governments, are exactly on that basis.

MR. RUEL: Then, clause 12:

12. The Commission may change, alter, amend or vary in any particular any cooperative measure, plan or arrangement submitted to it under the provisions of this Act, and may substitute other terms and provisions for those made or proposed, or the application thereof to works or undertakings other than those made or proposed.

That is, we give them some degree of control.

THE CHAIRMAN: Before we pass from clause 11, it would appear that this appellate commission has a double function; in the first place it is a supervisory board dealing with the expenditures; in the second place it functions as a judicial board in that it passes on disputes between the two companies.

MR. RUEL: Absolutely.

THE CHAIRMAN: But suppose you had some kind of body whose function it was to deal with the finances of the Canadian National.

MR. RUEL: The Governor-in-Council is that body at present.

THE CHAIRMAN: What has been impressed upon us from all quarters is the importance of separating that

function as far as possible from political influence. Of course you cannot do it entirely; parliament can revoke any Act of its own. If you had a small body, with the tenure of judges, appointed, at least at the outset, by parliament, with authority to control expenditure, it would not be feasible, I suppose, to extend that beyond capital expenditure.

MR. RUEL: Almost everything of importance is a capital expenditure under railway accounting. We have the same accounting as they have in the States; we adopt the Interstate Commerce Commission method. Hence the charges to operating are very small, usually the amount which is due to replacement.

THE CHAIRMAN: Should you be inclined to criticize a scheme of that kind? -- let us suppose for the moment that the two railways are running along just as they are to-day.

MR. RUEL: My criticism would obviously be this, that the very power which we are giving to this super board is the power which should be given to the proper kind of board of directors.

THE CHAIRMAN: I should agree to that. The difficulty about your board of directors is precisely the difficulty you find in this -- that they have no responsibility.

MR. RUEL: Absolutely. They should have responsibility; they should have everything on their shoulders. But my experience with boards of directors generally is that they are of very little use. They deal with a lot of small things but do not tackle the important things, neither do they understand them; they leave that to the administrative officers of the organization.

THE CHAIRMAN: How could you secure permanency of tenure to the board of directors?

MR. RUEL: You cannot.

THE CHAIRMAN: Give them power to coopt -- make themselves perpetuating?

MR. RUEL: No, I do not believe in that at all-- that is the Drayton-Acworth report.

THE CHAIRMAN: It does not appeal very much to me.

MR. RUEL: Billy Moore wrote a book on that a few years ago, called "The Family Compact," rather ridiculing the Drayton-Acworth report.

SIR JOSEPH FLAVELLE: To an outsider like myself, not trained in railway matters, it seems to me that what this property has needed is a great business head, who is the senior executive officer.

MR. RUEL: I quite agree.

SIR JOSEPH FLAVELLE: What this railway needs is the judgment, restraint, good sense and wisdom and authority of well developed, first-class business men.

MR. RUEL: It gets back to the personnel, as I said before.

SIR JOSEPH FLAVELLE: In a board of directors there will be certain men who give undivided attention to their duties, who come to the board with full and clear explanatory statements, and the board in turn ratify the thing that is recommended. What is needed is not for the administrator of the property to carry the authority of the board in his pocket, but rather the supervisory quality of sound business sense.

MR. RUEL: Quite.

SIR JOSEPH FLAVELLE: That is cold and fair; and he will be a buffer between the operating officers and parliament.

MR. RUEL: Quite.

SIR JOSEPH FLAVELLE: He will take upon himself the responsibility of talking to committees in parliament or otherwise, or to the minister, and if the minister undertakes to bring politics into the purchase of supplies he will say to the minister, "It cannot be, sir."

THE CHAIRMAN: How can you ensure the services of such a man?

MR. RUEL: He would be a super man. I never met one.

THE CHAIRMAN: You must give him some security of tenure, must you not?

SIR JOSEPH FLAVELLE: I do not know; he could make his own tenure.

THE CHAIRMAN: One man might; but how can you be sure of a succession of such men?

COMMISSIONER LEMAN: If you can get the proper men to form an appellate court, why could you not put them on the board?

MR. RUEL: Wouldn't I like to! If you had a board of absolutely capable business men who did not fear anything! The closest approach I ever saw public ownership get to a really good proposition was the Ontario Hydro Electric under Beck. Unfortunately he got a misleading idea into his head and started off with this Ontario radial proposition, and that would have bankrupt the province if he had not been stopped. Drury came in and stopped him, but so far as Beck himself was concerned,

the governments bowed down to him. The trouble is that if men like this last long they sometimes get the idea that they are supermen, and then they are gone -- that is merely my own observation. From the moment any man begins to think he is a superman, he is gone.

SIR JOSEPH FLAVELLE: What this great company has needed has been business administration.

MR. RUEL: Absolutely, nothing else.

SIR JOSEPH FLAVELLE: It has had men with imagination, vision, and all sorts of other things, but it has not had business administration.

THE CHAIRMAN: The question is how to secure that.

COMMISSIONER LOREE: Why do you see the possibilities of embarrassment in the board of directors? My practice is to take my problems to the board; not only do I do it because they are really the managers of the property, but I at once divide the responsibility.

MR. RUEL: You are entirely right.

COMMISSIONER LOREE: If a thing goes wrong, I say: "Well, we discussed it; we all agreed on it; you are just as much at fault as I was."

SIR JOSEPH FLAVELLE: We are indebted to you, Mr. Ruel, for being as candid and frank as you are. But any scheme put forward as a theory ought to be examined severely on its merits. Is it possible for two competitive corporations providing the whole railway system of the country, while still separate, to arrange with one another for a sensible working plan? That ought to be examined as a theory, on its merits.

MR. RUEL: Quite.

SIR JOSEPH FLAVELLE: Bankers of all competitors are the most savage I ever came in contact with from

the point of view of competition, but they do come together; while the theory of operation is one of competition, the competitors do not necessarily need to bite one another.

COMMISSIONER LEMAN: The banks do not cooperate; they agree to cut out useless competition. It is a question of more or less competition. You cannot call it cooperation if it is competition.

MR. RUEL: Where you have voluntary regulation of competition, obviously it will be the object of one party to make as much saving as possible on the other fellow's undertaking. The Canadian National officers would like to make all the savings out of the Canadian Pacific; the Canadian Pacific would like to make all the savings out of the National enterprise if they could. The idea would be not to sacrifice their properties any more than they could, and that is the trouble.

THE CHAIRMAN: Suppose by taking a certain course you are both going to save money; there is a case of voluntary regulation of your own activities.

MR. RUEL: Yes; the minute you start pooling you are all right -- then the more money you save the more there is for both sides. But if you merely regulate the cooperation between the two, tell them they must get together and make some saving, each tries to protect its own properties.

THE CHAIRMAN: Exchange of running rights is advantageous for both, with saving of expense.

MR. RUEL: We are coming to that all the time.

THE CHAIRMAN: The practical question raised by this proposal of Sir Henry Thornton is whether you can

not enlarge the sphere of cooperation to a degree that is worth while by vesting some sort of compulsory authority in somebody.

MR. RUEL: That is quite right. It is just the difference between the two ideas.

SIR JOSEPH FLAVELLE: Of course yours is fundamentally different -- yours is merger?

MR. RUEL: Yes.

SIR JOSEPH FLAVELLE: As between merger and the other proposal, men will have differences of opinion?

MR. RUEL: Very reasonably.

SIR JOSEPH FLAVELLE: But it is not a hopeless task, while in competition, to preserve good sense and good judgment so as to protect two great properties?

MR. RUEL: It is not hopeless.

THE CHAIRMAN: How will you secure it?

SIR JOSEPH FLAVELLE: By choice of personnel in those who administer?

MR. RUEL: Quite right.

THE CHAIRMAN: Is there anything that can be done by way of organization that will secure that proper choice?

MR. RUEL: No; I think the Canadian Pacific organization as it stands at the present time is a very fine organization. I like all their officers; I know Mr. Beatty personally and think a great deal of him. As for our own organization, I do not think you can beat it anywhere; they are splendid men. But when you have to get them together, looking to the saving of money and facing emergencies, the question is which proposal will give you the greatest and quickest return?

SIR JOSEPH FLAVELLE: The properties under one

guidance will save money, but it carries with it by-products that may wreck it.

MR. RUEL: May be destructive.

THE CHAIRMAN: The hypothesis here is that the properties are separate, and that voluntarily you get a certain amount of cooperation, or at all events a certain degree of common action founded on self interest.

MR. RUEL: Surely.

THE CHAIRMAN: Can you increase that? Is there any kind of authority you can set up which can say to these people: Now, you are unreasonable; you should go beyond that; you should do this thing -- you do not want to do it, but you have to do it. How are you going to work it out?

MR. RUEL: That power is given to this very appellate board, sir.

THE CHAIRMAN: But without security of tenure.

SIR JOSEPH FLAVELLE: This plan contemplates that the two great railways of Canada shall play fair with one another, to their mutual advantage. I do not despair of that being possible in human affairs, because I know something about it.

MR. RUEL: There is no doubt that if you can get that ideal state of affairs you are all right.

SIR JOSEPH FLAVELLE: May I ask, Mr. Loree, whether there is any reason in sound railway practice which would operate against a pooling arrangement?

COMMISSIONER LOREE: No; I think pooling arrangements, within limits, where they are called for, are a perfectly logical way of handling the business.

SIR JOSEPH FLAVELLE: One could conceive of a

situation where they would arrange to give the public the needed service and pool the receipts.

COMMISSIONER LOREE: Oh yes, that is entirely practicable. We did have pooling arrangements but they were abolished when the Interstate commerce law was passed. Now it has been reenacted, but nobody has undertaken to go into it again. It is lawful, but nobody is using it. There are many things that make it difficult to put pooling arrangements into effect, even though they are now permitting it.

COMMISSIONER LEMAN: Do you see a useful field in competition with cooperation?

MR. RUEL: Both these schemes, the president's and mine, will accomplish good results. It is only a question which is the better. Either can be carried out if it is done in the right spirit.

COMMISSIONER LEMAN: That is not exactly the question. Do you see a useful or wide enough field in competition with cooperation, sufficient to bring about the desired results?

MR. RUEL: I see your point.

THE CHAIRMAN: To get us out of our financial difficulty.

MR. RUEL: I do not think you can make as much saving under the president's plan as you can under mine, or make it so quickly. The reason I laid down this plan is because I think it produces a maximum of efficiency almost instantaneously. That is the real reason why I take some issue with the president's plan.

COMMISSIONER LOREE: I suppose you will agree that what we need, after all, is a surgical operation.

MR. RUEL: I call mine the "slaughter act."

But I think the emergency is more acute than most people realize.

COMMISSIONER LOREE: All the more reason for using the knife.

MR. RUEL: That is it exactly. That is why to a certain extent I am ashamed of my plan -- because it is too deadly; there is too much room for slaughter.

COMMISSIONER LEMAN: What part of yourself is ashamed -- your heart or your brain?

MR. RUEL: I am afraid I am going too far.

COMMISSIONER LEMAN: Sentimentally?

MR. RUEL: Sentimentally. I do not want to kill our staff, or the other fellow's either. I have a great deal of sympathy for those men who will necessarily be deprived of their work if this scheme of mine goes through. The trouble is we are overstaffed. You were speaking this morning of colonization and things of that kind, for which there is no longer any necessity. Some of these things will have to be eliminated, and eliminated very drastically; because unless the situation changes materially in the next few years or few months -- and I do not see any chance of it -- we are going to be right up against it -- and then what is going to happen? Suppose Mr. Bennett comes to-morrow and says: I am not going to let you borrow any more money; what are we going to do? So I say, let us get busy and put something into effect as quickly as we can. If anybody can show me a better scheme, I will adopt it overnight. After all, we are merely groping around to see what is the best solution. I am not proud of this solution

of mine at all; that of the president may be just as good and may accomplish just as much, but we have to do something. I have been glad to come up and explain this plan to you, but if you throw it out completely it will not worry me.

THE CHAIRMAN: We are more than grateful to you, Mr. Ruel, for this discussion.

The Commission adjourned at 4.15 p.m.

(Page 2400 follows.)



ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met on Friday, February 19, 1932, in the Judges' Conference Room of the Supreme Court of Canada, Ottawa.

PRESENT:

RIGHT HON. LYMAN POORE DUFF, P.C., Chairman

SIR JOSEPH W. FLAVILLE, BART.

BEAUDRY LEMAN, ESQ.

LEONOR FRESNOL LOREE, Esq.

WALTER CHARLES MURRAY, Esq.

JOHN CLARENCE WEBSTER, Esq.

Commissioners

Arthur Moxon, Esq., Secretary

George W. Yates, Esq., Assistant Secretary

Officials of Canadian Pacific Railway Company

E. W. Beatty, K.C., President

D. C. Coleman, Vice President Western Lines

E. T. Lloyd, Comptroller

E. A. Leslie, Assistant Comptroller

Judges' Conference Room, Supreme Court of Canada,
Ottawa,
Friday, February 19, 1932.

Morning Séssion

The Commission met at 10 a.m.

THE CHAIRMAN: Mr. Beatty, I think you had better plunge right in. There is no use wasting any time on the introduction.

COMMISSIONER LEMAN: One of these statements covers unification, the other incorporation.

Mr. BEATTY: Yes.

I have prepared, Mr. Chairman, a memorandum supplementary to these, which we have already filed with the Commission, in explanation of the two exhibits, one of which you have had for a few days and the other of which is being filed this morning. These show the possible economies through co-operation in the one case, and unification in the other. Perhaps it would be as well if I were to go through the memorandum, and with the exhibits before you I think you can follow the reasoning.

"On January 5th, in response to enquiries of the Commission, I presented some figures giving the approximate savings to be achieved from further co-operation in establishing joint trackage, stations and terminals, and indicated the possible savings which might be secured through unification.

CO-OPERATION

"Since that time our officers have made a more complete study of co-operation and I now file a detailed statement showing a possible saving of \$6,348,000 through such joint arrangements.

"In the outline of the proposals which follow, I

will indicate the difficulties which attend the making of such joint arrangements. This is done with no idea of prejudicing a full and impartial examination of the proposals, but solely to give the Commission some idea of the nature of the obstacles that have to be overcome to bring joint agreements into effect.

EXHIBIT "A"

"The largest part of the saving estimated is based upon the establishment of twenty-two new joint trackage sections involving the abandonment of 1,582 miles of track, details of which are shown in Exhibit "A".

"The longest section included is one of 405 miles between Winnipeg and Kaministiquia, near Fort William. The estimated saving of \$1,250,000 is brought about by abandoning operations over the Canadian National route via the National Transcontinental between these points. Three ways are suggested in which the traffic could be handled. The first, and that which has been included in the Exhibit, contemplates that the year round traffic of the Canadian National would be moved via the old Canadian Northern line, only the overflow traffic in the rush period to be accommodated on the Canadian Pacific double track line. Such an arrangement would have certain disadvantages to the Canadian National which would have to be weighed against the proportion which would accrue to that company of the monetary saving to the two railways. In speaking of disadvantages, I have in mind that the Canadian National would, under this proposal, have only one regular route for traffic between East and West. There would, in addition, be practical difficulties in oper-

ating, during the period of peak traffic, over a joint section 405 miles in length, which would include two intermediate terminals. If the Canadian National trains were to be operated by their own employees, special arrangements as to accomodation would have to be made for their train and engine crews operating away from their home terminals. If the trains were to be operated by Canadian Pacific employees conflict would arise in respect of the interest of the Canadian National and Canadian Pacific employees. There would also be difficulty in adjusting expense because of fluctuation of traffic from year to year.

"The second arrangement would be to route the major part of the Canadian National freight and passenger traffic over the Canadian Pacific the year round. This would present no less difficult problems, because of the existence of the alternate Canadian National route via Fort Frances and the practical difficulties of operating over such a long section of track with employees of two companies having conflicting interests. At the intermediate terminals, there would be problems as to priority in switching and in the repair and despatching of locomotives.

"The third proposal is the same as the second, except that Canadian Pacific employees would handle the traffic. This would overcome the practical difficulties referred to, but the objection to it is that it involves placing the major traffic operations of the Canadian National in the centre of their system under the control of a competing carrier.

"Another large item is a saving, estimated at \$1,206,000, to be secured by the abandonment of oper-

ations over the Canadian Pacific track between Kamloops and Petain, 163 miles, and Canadian National track between Hope and Vancouver, 79 miles. No practical difficulties are apparent in creating a joint section between Kamloops and Petain, utilizing the Canadian National low grade line, although it might be necessary to make some expenditures in order to bring this section of Canadian National track up to the standard of the Canadian Pacific line to be abandoned. To abandon the Canadian National track between Hope and Vancouver, it would be necessary to make a connection so that the Canadian National could reach their freight terminals.

"The remainder of the joint sections are for relatively short distances."

COMMISSIONER LEMAN: Is that an important feature--- making a connection from the Canadian National to their freight terminals?

Mr. BEATTY: In Vancouver?

COMMISSIONER LEMAN: Yes.

Mr. BEATTY: No, it is not a serious thing.

EXHIBIT "B"

"In Exhibit "B" details of an estimated saving of \$2,269,000 are shown. These savings are to be secured through the establishment of joint stations and terminals at sixty-seven places. A brief description of some of the items will indicate the factors involved.

"The saving of \$81,000 at Quebec is divided about equally between consolidating the freight sheds and the car departments. With regard to the former, it is appropriate to note that prior to the consolidation of the Canadian National Railways, the National Transcon-

tinental Railway was making use of the Canadian Pacific freight shed. The combined Canadian Pacific and Canadian National traffic could have been taken care of in the joint terminal with a small extension to the freight shed. The Canadian National, however, considered it desirable, for competitive reasons, to withdraw the National Transcontinental traffic and consolidate it in the Canadian Northern shed. There has been no change in the situation since that time. With regard to the car departments - negotiations toward consolidation have already taken place. To accomodate all the Canadian National coaches, it is necessary to enlarge the joint coach yard. This work, and the consolidation of the car staffs, has been temporarily deferred, in view of existing business conditions. This particular situation illustrates the difference between savings feasible through co-operation and through unification, as the passenger traffic of a unified system, because of the reduction in the number of passenger trains and cars to be operated, could be adequately taken care of in the existing facilities.

"In view of the failure to agree upon a general programme for joint use of facilities in Montreal, no saving has been included for such joint use. The item of \$290,000 represents an amount which it is estimated could be saved if the two systems agreed to close the outlying freight sheds in various parts of the city and consolidate the handling of less-than-carload traffic; the Canadian Pacific at Place Viger, and the Canadian National at Bonaventure and Point St. Charles.

"The largest single item in the study is the

saving of \$637,000 shown at Toronto. This saving represents the results of the consolidation of passenger coach yards, the consolidation of passenger stations at Parkdale and West Toronto and the establishment of joint switching for industrial areas. In the past it has been difficult to reconcile the differences of the two companies in switching industrial areas. For instance, it is only a little over a year ago since the Canadian National required the Canadian Pacific to construct a service track in the North Toronto area, in accordance with the terms of an agreement dated 1915, in order to secure direct contact with the industries instead of availing itself of the services of the Canadian Pacific which had been performing the switching."

That is an old contract that was entered into at the time we constructed the North Toronto station and the grade separation in the district. It was an application of the old Canadian Northern Railway. Sir Joseph may remember it.

"A saving of \$400,000 could be secured by consolidating the facilities of the two companies at Port Arthur and Fort William, where the physical situation is favorable to consolidation. Serious difficulties would probably develop due to the extraordinary conditions which prevail during the rush period, which call for the prompt release and return of grain carrying equipment. To prevent disagreement, absolute impartiality in the placing of cars in order of arrival would be essential, and this would be almost impossible to arrange on all occasions.

"It is estimated by consolidation of all facilities at Calgary, there would be a saving of \$120,000.

The establishment of a joint passenger station has been the subject of discussion between the Companies. This project is usually linked up with the Canadian Pacific's use of the Canadian National terminal at Edmonton. An item covering this and including the abandonment of 33 miles of Canadian Pacific track, is listed in Exhibit "A."

SIR JOSEPH FLAVELLE: Is there an important charge in any of these that would invalidate for any length of time the saving?

Mr. BEATTY: No. We regard these savings as comparatively easy of accomplishment.

"Included in the total is a saving of \$90,000 through the merging of the Okanagan Services. This includes a consolidation of train and boat services in the Okanagan District.

"From what has been said with regard to the points at which joint operation appears at all feasible, it will be seen why the total to be saved from co-operation is so much less than the saving which would result from unification. In a previous statement, I referred to the difficulty in extending the field of co-operation beyond certain boundaries. Conflict of interest, and of governing policy, is bound to exercise a restraining influence. Prestige and good-will are of the utmost value in the railway business, and withdrawal from certain areas by a company professing to give nation-wide service might endanger both, and do damage to the morale of the whole organization. The operation of a transcontinental system cannot be localized. The employee at Saint John or Sherbrooke, or Regina or Edmonton, is

not concerned only with the working of the railway in his own city or his own district, but is vitally interested in advancing the fortunes of the whole system. To neutralize the staff at many of the key points in the country, would result in the indifference which is bound to follow any effort to satisfy the requirements of two contending masters. At least, it has always been the experience that one of the parties felt that the joint staff did not hold the balance evenly, and that its influence and reputation in the community was weakened.

"If a general scheme of co-operation between the two competing systems were to be worked out on a large scale, carrying with it an assurance of permanency, it would have to be on the principle of equality of sacrifice and equality of advantage. Conditions vary to such an extent in different sections of the country, and are so subject to modification from time to time, that the difficulties in negotiating a mutually satisfactory arrangement on broad lines would be almost insurmountable. In short, competition and co-operation are in practice irreconcilable."

Now, the other exhibit, which is the larger of the two deals with the unification and the possible economies that could be effected from it.

"A representative Committee of officers has completed a study of the economics possible by unification of the Canadian National and Canadian Pacific systems under private management, to which I referred when I was last before the Commission. Copies of the study have been filed.

"Before explaining briefly the factors entering into their computation, I would point out the self-

evident fact that maximum economies are only possible through complete unification. The more favorably situated lines, the better facilities and equipment of the two companies would be available to carry out the combined operation in the most efficient manner and at the least expense. There would be none of the conflicting interests which are ever present in endeavoring to secure economies by co-operative effort. In every case where the two companies are performing similar services, if either company is more advantageously placed that advantage would be secured for the operation of the unified property. Gradually, duplication in facilities would disappear with resultant decrease in maintenance expense. Duplicate expansion, involving unnecessary competitive expenditures, would be avoided in the future. Supervisory and general expenses would be materially lessened. An important feature, upon which I will enlarge later, is that these advantages can be achieved, I believe, without material detriment in service to the public and with a minimum of disturbance to labor. In certain territories unification will actually permit a freer movement of passengers and freight.

"The Committee took as the base for their calculation the year 1930. In this they were conservative, as the expenditures in that year were less than the average for the period 1923-30. They assumed that unification had been completed; the co-ordinating period, which has been set at five years, having elapsed.

EXHIBIT "A"

"The first task of the Committee was to determine

what tracks it was considered could be abandoned if the properties were operated as a unit. Lines which they thought could be eliminated are listed in Exhibit "A", which also shows the proposed method of handling the traffic from these lines. It is possible that in carrying out the program, changes in the details of the lines to be abandoned might be found advisable, but we are confident that unification would permit an abandonment in excess of 5,000 miles.

"Amongst the lines which would be dispensed with is the National Transcontinental between Winnipeg and Nakina, and the old Canadian Northern between Long Lac and Ottawa. At present there are three railway lines between Winnipeg and Eastern Canada, one of which is double-tracked continuously between Winnipeg and Fort William, and for short stretches between Fort William and Sudbury, the aggregate mileage of which stretches is 188. Over the latter railway could be handled with ease all the traffic between Fort William and North Bay, and a large proportion of the traffic between Winnipeg and the head of the lakes. One of the other lines is, therefore, superfluous. The National Transcontinental was built at great expense with the avowed object of providing an Eastern connection for the Grand Trunk Pacific, and of providing a low grade line for the haulage of grain from Winnipeg to Quebec and Eastern seaports. Practically no grain now moves all rail from the West to the East because of water competition and the increase of storage facilities in the East, and the opening of Vancouver export route. In any case, Winnipeg is not the breaking point for grain shipments, as all trading

on Eastward moving grain is done on the basis of Port William or Port Arthur delivery, weights and grades. The Drayton-Acworth Commission recognized this condition and the report said "Winnipeg is primarily a collecting and distributing rather than a producing centre. What it does produce goes mainly Westward". (Sessional Paper 20g 7 George V, 1917, Page lxvi).

If the Canadian Northern tracks between Port Arthur and Long Lac are preserved, the traffic could still move on easy grades from the head of Lake Superior to Quebec and other seaports. The Canadian Northern line between Winnipeg and Port Arthur should be maintained in preference to the National Transcontinental because it serves more important communities and affords a connection with a railway to Duluth. The double-tracked Canadian Pacific line, in conjunction with the Canadian Northern line, can handle all the grain and other traffic between Winnipeg and Lake Superior. The portion of the National Transcontinental preserved will enable it to provide for the necessities of the timber, agricultural and mineral territory in Northern Ontario and Northern Quebec, and with running rights over the Temiskaming and Northern Ontario Railway between Cochrane and North Bay, it will furnish an alternative route for other traffic between the East and the West. Between North Bay and Ottawa all traffic can be easily provided for on the Canadian Pacific. It is also proposed to take up the rails of the National Transcontinental between Diamond and Edmundston and between Cyr and Chipman, as the existing and potential through traffic could be provided for on the intercolonial and the Canadian Pacific short line, and the local traffic is light. The existence of this route to and from the

Maritimes has little or no bearing on freight and passenger rates, which are governed by other competitive conditions.

"The programme also provides for the removal of Canadian Pacific rails between Glen Tay and Whitby, and between Woodstock and Windsor. In those territories the double-tracked line of the Canadian National would be utilized and such local traffic as exists could be provided for without serious inconvenience."

SIR JOSEPH FLAVELLE: How far east is Glen Tay?

Mr. BEATTY: It is just west of Smiths Falls, sir.

SIR JOSEPH FLAVELLE: It practically means that all that line is abandoned?

Mr. BEATTY: There we are so closely parallel. Yes, sir.

"The Canadian Pacific rails between Saskatoon and Unity would be taken up, as it is a secondary main line closely parallel to the main line of the Canadian National. Between Kamloops and Hope the Canadian National line would be used and the Canadian Pacific eliminated. Although older, and of first class permanent character, the latter is less favorably situated in the matter of gradients. From Hope to Vancouver the Canadian Pacific route would be followed, advantage being taken of the double-track mileage between Ruby Creek and Vancouver, and of the Coast terminals of that Company."

SIR JOSEPH FLAVELLE: How far is Hope from Vancouver?

Mr. BEATTY: Seventy-nine miles.

"The other changes, although numerous and involving in the aggregate considerable mileage, affect only branch lines which parallel others, or on which traffic is unprofitably light."

EXHIBIT "B" "The passenger train services of the two companies in 1930 were next carefully reviewed. A detailed calculation was made of the reduction in train and car mileage which could be achieved without detriment to the public service. This reduction would be brought about by the consolidation of lightly loaded trains now operated between the larger centres of population and in transcontinental service and by the re-routing of trains over the shorter or more economical route. There would be a saving of 7,500,000 train miles, or 16.2 per cent, and in excess of 51,000,000 car miles, or 14.9 per cent.

EXHIBIT "C"

"Unification of the two systems would result in the re-routing of freight traffic between many points with resulting economy. Wherever there are alternate routes, the most favorable could be used. Merchandise traffic is handled between large centres on scheduled trains. These must run on schedule irrespective of traffic offering. Unification would permit a consolidation of these services. There would be a reduction in number of cars required to handle less-than-carload freight between the same large centres. There would be a saving in switching expense, and, in many cases, in train mileage because of consolidation of this traffic in fewer cars.

"The effect of all these factors was carefully computed. The saving is estimated at 5,300,000 train miles, or 9.2 per cent, and 67,000,000 freight car miles, or 3.3 per cent.

"In addition there would be further reductions in mileage which have not been computed. In many of alternate routes examined, the costs appeared approximately equal and no saving in mileage was included. As one of the routes must, in practically every case, be more favorable than the other, further examination of such routes undoubtedly would increase the total mileage to be saved. Unification would permit a redistribution of locomotives to advantage, ensuring larger average daily mileage for the most efficient units. Handling of the combined traffic over the favorable route, because of the greater volume, would result in a decrease in unit costs of operation. These further savings could not be calculated in dollars and cents in the time available.

EXHIBIT "D"

"To determine what would be done under unification at each terminal would require a detailed study of the physical conditions and traffic of both properties at each point in relation to the surrounding territory. Exhibit "D" contains a list of the terminals where material reductions in expenses will be possible. The concentration of similar work in certain yards, the movement of traffic through terminals by the most economical route, the elimination of interchange requirements, and the reduction in switching because of fewer trains and cars to be handled will mean a reduction in yard switching expense. Consolidation of freight and passenger services in the sheds and stations of one company or the other will be a convenience to the public and will result in economies to the public beyond the saving in

railway expenses. The situation at these terminals has been examined in a preliminary way and a conservative estimate of the savings which will accrue was determined. Unification will result in avoiding the replacement and enlargement of many facilities which, if the railways continue to be operated separately, will involve heavy expenditures for both roads, and indeed will permit the abandonment of some existing facilities with a resultant saving in maintenance expense which has not been computed.

EXHIBIT "E"

"A list of the main locomotive and car repair shops of both companies is given in exhibit "E". Unification will result in the use of the most efficient shops to handle the work of the combined systems. Similar work would be concentrated, as far as possible, in one or more shops, thus reducing the unit cost of repairs. The most efficient machinery of the two companies would be available for the combined repairs.

EXHIBIT "F"

"The expenditure for supervision will be materially decreased. There are duplicating supervisory offices in many centres. A great part of supervisory officers' time is occupied in travelling. The time so occupied in the course of their duties will be lessened by the concentration of their work in more compact territory. They will be able to more effectively handle greater mileage and still be close to their headquarters and to other points under their jurisdiction. The number of offices will be decreased with a saving in clerical expense. The number required to take care of the property after unification has been

calculated and is shown in Exhibit "F".

EXHIBIT "G"

"Unification would have its effect on railway operating revenues. This has been set out in Exhibit "G". There would be a gain to the unified company in gross revenues by securing a longer haul over the combined system on international, interstate and Great Lakes traffic. Naturally these changes would be affected by relations with other carriers concerned on account of traffic interchange. In time, however, there would undoubtedly be an increase in revenues in this way. On the other hand, there would be a loss in gross revenues through adjustment of rates brought about by use of shorter mileage and change in terminal arrangements, and through traffic lost to other transportation agencies on account of abandonment of track. The loss to the railways in adjustment of rates would be a direct gain to the public in a reduction of their transportation charges. This is one of the ways in which the benefits of the unification would directly accrue to users of the railway.

EXHIBIT "H"

Page 1

"Having determined the major reductions possible in track, train and car mileage, and examined the possibilities for economies in terminals, shops and in supervision, which have been discussed under Exhibits "A" to "F", the Committee carried these reductions through the general accounts under which railway expenditures are classified. Page 1 of Exhibit "H" is a summary of the total reductions in operating expenses, amounting to \$64,267,000.

Pages 2 & 3

"The net saving in the first account, Maintenance of

Way and Structures, amounts to \$14,888,000. The cost of maintenance for the unified properties, comparative with the separately operated properties, was determined by applying Canadian Pacific unit costs of 1930 under the various accounts on a track mileage basis to the reduced mileage. Our engineers are satisfied that the condition of the two properties is such as to make this proper. In the accounts which would be affected, allowance was made for the difference between double and single track and between main line and branch lines. The major part of the saving is through the abandonment of the 5,000 miles of track; there is also some saving through the application of the Canadian Pacific unit costs, particularly in Superintendence. As is pointed out on Page 2, there are substantial savings which were not determined or included.

Pages 4 & 5

"The net saving in Maintenance of Equipment amounts to \$14,360,000. The cost of maintenance for the unified properties was determined by applying Canadian Pacific unit repair costs to the locomotive and car mileages of the unified system. This method takes into account the reduction in train and car mileage, as well as unit costs. Our mechanical officers consider we would not only be able to equal our unit repair costs for the unified system, but, in the case of locomotive and freight car repairs, would be able to achieve a 5 per cent reduction through a higher percentage of modern equipment being in service, and through concentrating repair work on a production basis at the most efficient shops. There would be substantial savings in Superintendence. No saving was calculated for retirement charges or for the savings

to be secured in the purchase of materials and handling of stores.

Pages 6 & 7

"The reduction in Traffic Expenses was computed as \$5,775,000. Elimination of competition would enable a complete consolidation of the activities of the traffic department throughout the world. In Canada, to a large extent, and elsewhere, to a more limited extent, the activities of the traffic departments of the two railways are directed one against the other. With a materially reduced expense, a combined traffic department could adequately serve the public and bend its energies to meeting the competition of other transportation agencies. There would be a saving in advertising and miscellaneous expenditures.

Pages 8 & 9

"The largest item in the saving is that of Transportation - Rail Line, amounting to \$23,994,000. This consists of \$1,290,000 in Superintendence, which has been computed in the same manner as Superintendence in other general accounts. Due to track abandonment and the consolidation of divisions, it is estimated that there would be a reduction of 20 per cent in the train despatching expense. The savings in station and in yard service have been computed at \$3,470,000 and \$3,944,000 respectively. These savings were calculated by a detailed examination of expenditures at the places shown in Exhibit "D". They reflect the reductions in track mileage, and, to a limited extent, the reductions in train and car mileage. Unification would enable very large savings to be made in the expenditures chargeable to these accounts, which include the

handling of less-than-carload freight in freight sheds and of switching of cars at terminals. The full possibilities of the saving which could be achieved in these services is hard to visualize. The railways operated separately are continually finding means of reducing their own expenditures. It would take years to find and put into effect all the economies which will be possible for the unified properties. The largest item in Transportation is a saving of \$13,215,000 in train service, reflecting the decreased passenger and freight train mileage. The unit costs used, in the main, were those of the combined system so as to give effect to the different operating conditions on the two roads. The saving in fuel costs was based upon the reduction in car mileage, which is less than the reduction in train mileage. An allowance has been made for the benefit to be derived from the use of the most efficient locomotives, the purchase of coal in larger quantities from the most favorable sources and improved operating practices which would be made possible by unification. The saving of \$1,521,000 in Other Expenses includes a reduction in sleeping car expense due to a reduction in mileage, a reduction in signal and interlocker expense and in miscellaneous items.

Page 10

"The small reduction shown in Transportation - Water Line, is through the unification of services on the Okanagan Lakes.

Pages 11 & 12

"The net saving in General Expenses amounts to \$4,289,000. The cost of administration and accounting for the unified properties was determined by applying

Canadian Pacific costs to the mileage of the unified system and deducting 20 per cent on account of unification.

Page 13

"The reduction of \$918,249 for Dining and Buffet Service was brought about by estimated decrease in dining car mileage required for the reduced passenger train service.

SUMMARY

"Turning back to the figures shown on the right hand side of the summary, it will be found that the first two items are the totals of Exhibits "G" and "H", which I have just described.

"Miscellaneous Income Items, \$211,000, consist of a gain of \$50,000 in Hire of Equipment, through the quicker return of foreign cars to U.S. connections, made possible by the opening up of interchange points for both railways which are now available to only one or the other, the unification of stockyards and abattoirs at Montreal and the saving from abandoning the 38 miles of the Lake Erie & Northern tracks shown in Exhibit "A".

"The item, British Columbia Coast Steamers, is the saving which would be made through the consolidation of the coast services of the two companies.

"Exhibits "I" and "J" show the savings in Telegraph and Express Services. Unification of the two railways will permit greater economies than would be possible through the consolidation of those services without such unification, due to abandonment of line and reduction of passenger train services.

"A saving of \$300,000 has been estimated for

Colonization, Development and Insurance due to consolidation of offices.

"A unified system would require smaller stocks of material than the two roads operated separately. The money realized from the material released and from the material salvaged from abandoned tracks could be otherwise employed. The saving, computing interest at 5 per cent, has been estimated as \$1,700,000 per annum.

"Due to the consolidation of traffic, fewer cars will be necessary and the reduction in train mileage will be reflected in a saving in number of locomotives required. There would, therefore, be a reduction in investment in equipment as compared with the probable future requirements of the two systems operated separately. There has been included in the saving an item of \$4,650,000, representing interest at 5 per cent per annum on the reduction in investment."

SIR JOSEPH FLAVELLE: Speaking of reduction in investment and equipment, that is by means of the longer period of the life of the road?

Mr. BEATTY: Yes, sir.

SIR JOSEPH FLAVELLE: There could not be any reduction immediately. You could not sell any equipment.

Mr. BEATTY: There would be nothing substantial.

SIR JOSEPH FLAVELLE: It would be as renewals became necessary.

Mr. BEATTY: We would have the advantage of each others equipment.

"The abandonment of railway mileage will involve, in some instances, the removal or demolition of industrial plants, grain elevators and other warehouses,

and their re-erection on new sites. No proportion of the cost of such changes is included in the study, but the incidental items of saving to which I have referred as not having been reduced, or as not being reducible to figures will, it is estimated, more than counter-balance any such incidental items of expense.

"Account must be taken also of the saving in future capital expenditures. In providing for the normal growth of traffic and changes in its character, the extension of one plant would obviously cost much less than the extension of two. This consideration would apply throughout the entire scheme of additions and betterments necessary to adapt the system from time to time to the use of new machinery and methods. I regard this as a most important element in unification, as one involving a very large item of saving.

"From the care taken in the calculation, I feel sure that close scrutiny will show that the total saving of \$75,000,000 is conservative. Our officers will be glad to explain in detail the method followed and give particulars of the calculations when required."

I may say, Mr. Chairman, we had anticipated that this detailed material which we have not filed with the Commission is available for examination, and might properly be inspected by your technical experts in order to make sure that we have adopted a conservative basis.

"It may be of interest to know that the basis of our computations was examined by the railway officer responsible for the study of economies which accompanied the application to the Interstate Commerce Commission by the Great Northern Railway and the

Northern Pacific Railroad for authority to consolidate those properties. In his opinion the calculations were made on the right lines and his conclusion was that if consolidation was completed, the actual savings would in all probability considerably exceed our estimate.

"I have said that a period of five years must elapse before a complete consolidation of the properties can be effected. In the meantime the employees displaced by the gradual fulfillment of the program can, to a considerable extent, be absorbed through the normal growth of traffic (taking into account the fact that the volume is now sub-normal) and by the normal turn-over through retirement and withdrawal. A detailed study covering the years 1925 and 1926 was made in connection with the proposed amalgamation of the Great Northern and Northern Pacific and it disclosed a labor turn-over of 6 per cent per annum on these railways. If this turn-over on Canadian railways amounted to only 4 per cent per annum during the five year period, it would more than provide for the number of employees affected, without allowance for any improvement in traffic conditions. There would be individual cases which could not be so disposed of, and these would have to be met by some form of compensation adequate to the circumstances."

We have taken 4 per cent, not because we could get official figures of the turn-over, but because we felt that the turn-over in Canadian railway labor would, generally speaking, be slightly less than that in the United States. The Great Northern and Northern Pacific, and the Delaware and Hudson were 6 per cent and 5 per cent respectively. I

regard that as a most important factor. If turn-over is going to take care of your labor situation, we have less of an unnatural situation to meet.

COMMISSIONER LOREE: Did you segregate the total savings by the abandonment of 5,000 miles? Have you totalled that? I have references to it here and there.

Mr. BEATTY: No.

SIR JOSEPH FLAVELLE: It appears in each one---

Mr. BEATTY: ---of the major accounts, sir.

COMMISSIONER LOREE: I wondered if you had totalled it up.

Mr. BEATTY: We will settle that, Mr. Loree.

COMMISSIONER LOREE: The various items have not been totalled up in any way.

Mr. BEATTY: We will do that.

SIR JOSEPH FLAVELLE: Mr. Beatty, having reference to the abandonment of 5,000 miles of railway, units of which have been in operation for from 1 to 15 or 20 years, have you attempted to make an estimate, or have you considered any possible basis of the compensation by established property, industrial plants and other things that necessarily grow up around local stations?

Mr. BEATTY: Of course, in the territory served by this 5,000 miles of railway there is nothing substantial. There are a few grain elevators wherever it is a prairie line. It is a simple matter to remove them to an adjacent line.

SIR JOSEPH FLAVELLE: I was thinking rather of properties in connection with which, if unification took place, there might be claims made to a compensation board set up by the Government, by those who had lost their properties.

Mr. BEATTY: I do not believe there is anything substantial in the way of industrial development on any of the lines that we have suggested abandoning. Take the line between Glen Tay and Whitby. That is a well settled part of the country, but the road runs around the lakes and the only investment is the investment in a few summer cottages. We run through a fine territory, but we do not contribute to any local industrial development at all.

SIR JOSEPH FLAVELLE: Supposing we get away from the importance of industrial development, and just take the sense of the little village that has grown up, and which without a railway becomes the subject of claims for damages. Had you attempted to estimate the possible aggregate sum of such damages?

(Page 2431 follows.)

MR. BEATTY: No, sir, we have not.

SIR JOSEPH FLAVELLE: Or had you contemplated the possibility of a compensation board assessing damages if Parliament took action?

MR. BEATTY: It could be done, but it would have to be very carefully done. But small communities would be inconvenienced by the existence of the present railway and slightly inconvenienced by their removal. They would have only that item of convenience to consider, because in the settled districts their contact with the railway is moved just a few miles.

SIR JOSEPH FLAVELLE: Take, for instance, the section of the National Transcontinental which, from a given point, you suggest should be abandoned, and for which there is no other compensating line nearby. I took the point to be somewhere near lake---

MR. BEATTY: Long Lake?

SIR JOSEPH FLAVELLE: Is it from there east?

MR. COLEMAN: The proposal is to abandon the National Transcontinental from Winnipeg to Nakina.

SIR JOSEPH FLAVELLE: To abandon all that Canadian National section.

MR. COLEMAN: All that National Transcontinental, and from there the National Transcontinental is continued right east from Nakina to Quebec.

SIR JOSEPH FLAVELLE: It is a dead end?

MR. BEATTY: No. The Canadian Northern is retained all the way from Winnipeg.

SIR JOSEPH FLAVELLE: Are there villages along that stretch from Nakina to Winnipeg?

MR. COLEMAN: Nothing of any consequence except the summer resort at Minaki, which can be reached by the

Winnipeg River from Kenora.

THE CHAIRMAN: How many stations would there be along there, Mr. Coleman.

MR. COLEMAN: You can figure on a station about every seven miles---that is a siding. None of them are important stations.

THE CHAIRMAN: There would be little settlements, but they would be mostly railway employees, would they not?

MR. COLEMAN: Yes.

COMMISSIONER LOREE: I do not think that that is a matter, Sir Joseph, that would get into very large figures. In the United States no provision is made for compensation, but private adjustments have been made by Eastern Railways. Our own road abandoned twelve miles of a branch and paid nothing to anybody. We abandoned twenty-three miles of the Holmesdale branch, and bought out an ice concern.

SIR JOSEPH FLAVELLE: Do you have to get permission from the Inter-state Commerce Commission?

COMMISSIONER LOREE: Oh, yes, but before we went there with that case we had an agreement with the man who owned the ice plant, that if this agreement was approved we would pay him \$125,000 and take over his plant.

MR. BEATTY: Didn't we have a case in Brockville in which the Canadian National changed a terminal, and Parliament intervened and provided for compensation?

THE CHAIRMAN: Would you say that that would apply generally over the whole five thousand miles?

MR. BEATTY: That what would apply, Sir?

THE CHAIRMAN: That the loss of communication to individuals and small settlements would not be serious.

MR. BEATTY: No, not in those districts. In others it

might, but not here.

THE CHAIRMAN: I am speaking of the contemplated abandonments.

MR. BEATTY: Oh, no, sir.

SIR JOSEPH FLAVELLE: Speaking broadly, it does not appear to you and your officials that that would be a matter of first magnitude?

MR. BEATTY: No.

COMMISSIONER LOREE: We had to re-arrange our operating provisions, and abandon one terminal altogether. We formed a real estate company and bought all the holdings of the employees, and liquidated that over five or six years by selling the isolated holdings. We lost about \$35,000. I do not think that is a serious question, sir, in the light of my experience.

COMMISSIONER LEMAN: May I ask a question regarding Exhibit E, page 1. First are the figures of the mileage of the Canadian Pacific Railway in Canada about 17,100 miles, and outside 5,300 miles---

MR. BEATTY: No, we have not included outside mileage. This is Canadian mileage plus a few miles in Vermont and Maine.

COMMISSIONER LEMAN: This would cover about 17,100 miles in Canada.

MR. BEATTY: I think it is 16,000, isn't it?

MR. COLEMAN: 16,658.

COMMISSIONER LEMAN: And what do you make the mileage of the Canadian National Railways?

MR. COLEMAN: 23,768.

COMMISSIONER MURRAY: Is this mileage of the Canadian National purely Canadian?

MR. BEATTY: Yes, sir. It includes the Grand Trunk

Western.

COMMISSIONER LEMAN: There are figures here of cost of maintenance of way and equipment that are so out of proportion that I should like to have a reference to the mileage they cover. The C.P.R. in 1930 spent on maintenance of way and structures, \$27,402,000. The Canadian National spent for the same items \$47,877,000. That is to be found on page 1 of Exhibit H.

MR. BEATTY: Are those the figures in the statement given to us this morning?

COMMISSIONER LEMAN: It is the study of economies possible by unification, dated February 8.

MR. JOURNAL FLAVELLE: If about the same mileage of road is involved, why is it that the cost is \$20,000,000 more in the case of the Canadian National.

MR. BEATTY: You want the information relatively per mile?

MR. JOURNAL FLAVELLE: The query would be this. Is the reason that the expenditure of the one is so much greater than the expenditure of the other the fact that the Canadian National has not yet caught up on maintenance of way and structures? And similarly, on maintenance and equipment.

MR. BEATTY: We think they have caught up by this time, after eight years; but we think there is something to be said in favour of efficiency.

COMMISSIONER LEMAN: Normally, would the expenses of the Canadian National be about one-third larger than yours for the same items? If you have the proportion of sixteen to twenty-four that would be about two-thirds, wouldn't it? One-third more for the C.N.R?

MR. BEATTY: I think so. That, of course, is on a straight mileage basis, Mr. Leman.



COMMISSIONER LEMAN: Take your first item, your saving of \$14,000,000 seems small because you have only twenty miles more of maintenance of way and structures on the Canadian National than on the Canadian Pacific system.

MR. BEATTY: We are applying the same unit of cost to the C.P.R. as to the combined, the united system. That would be twenty-three plus sixteen, less five. That five thousand reduction of mileage is reflected in the figures.

SIR JOSEPH FLAVELLE: And you are commencing the comparison say five years hence.

MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: And there will be some savings---

MR. BEATTY: ---from year to year.

COMMISSIONER LEMAN: On maintenance of way and structures their figures would be \$36,000,000 instead of \$27,000,000.

SIR JOSEPH FLAVELLE: In the reduction of your mileage, have you made up what the reduction will be for the Canadian National and the C.P.R.

MR. BEATTY: Yes, sir.

MR. COLEMAN: Sixty-six per cent Canadian National; thirty-four per cent Canadian Pacific.

SIR JOSEPH FLAVELLE: The lines which would be abandoned.

MR. BEATTY: Yes.

THE CHAIRMAN: There is a difference of seventy-four per cent in the cost of maintenance and forty-three per cent in the mileage involved.

MR. BEATTY: There is a very substantial difference. In reference to your question, Sir Joseph, as to the percentage of abandoned lines of the two companies, I may say that the C.P.R. was built as a unit and their lines were built to

compete with each other.

SIR JOSEPH FLAVELLE: Quite. The Canadian National is composed of two systems built to compete, but I am still querying how the maintenance of way and structures should be twenty-seven as to forty-seven, and thirty-one as to twenty-nine---

COMMISSIONER LEMAN: If you take the total of the Canadian Pacific system, \$146,000,000, a third of that would be \$50,000,000, which would make a total of \$196,000,000, whereas their expenditure has been \$228,000,000.

MR. BEATTY: Yes.

COMMISSIONER LEMAN: What would be your explanation of that \$30,000,000 odd more on the same basis of mileage as the C.P.R.? Is it more expensively operated or are physical conditions such that it is more costly to operate the other line than yours, on a mileage basis? Is that a fair question?

THE CHAIRMAN: Mr. Beatty's modesty rebels.

MR. BEATTY: Without knowing the exact difference in the territory of the National railways and our own, in many instances I should say that their maintenance expenses would be proportionately higher due to the fact that they have so many lines of comparatively new construction which have not yet come into any great earning ability but have to be maintained. Their ratios of cost throughout, I think, are higher than ours, with the one possible exception "traffic". This is due to the fact that our traffic expenses include all the expenses of our steamship line and other services which they do not have, because their steamships are kept separate from their railway. Our steamship company is part of our rail operations. They pay us back.

COMMISSIONER LEMAN: So you think that mile for mile their costs should be higher than yours.

MR. BEATTY: I think they might be slightly higher. I do not know whether the difference would be material.

COMMISSIONER LEMAN: There is a very large difference.

MR. BEATTY: It depends on the view of the management, and the standard of maintenance. I remember years ago the Canadian National kept the line to Prince Rupert in first-class, main-line condition. Some years later, I think about 1924 or 1925, they concluded that the expenditure was a waste of money, that the traffic they could handle over that line did not justify it, and they materially reduced the standard.

COMMISSIONER LEMAN: This is based on 1930.

MR. BEATTY: Oh, yes. I am telling of this particular line. It is always a matter of judgment.

COMMISSIONER LEMAN: Do you mean to say that their standard of maintenance would be higher than that of the C.P.R?

MR. BEATTY: Oh, no; it should not be. I have heard a great deal of discussion as to what they had to do in the way of deferred/^{maintenance} before 1927. That had to be picked up. If in the eight or nine years that have elapsed they have not got to the Canadian Pacific standard, I cannot explain it.

COMMISSIONER LEMAN: Now page 3 of Exhibit H. We have these same conditions running throughout these statements: ---Superintendence, Canadian Pacific Railway, \$1,371,000; Canadian National, \$3,940,000.

MR. BEATTY: That is three times the amount, and on the mileage basis it should be one-third more. They have more men than we have, proportionately.

COMMISSIONER LEMAN: Is it necessary?

MR. BEATTY: We do not think so. We have reduced the proportions of our own.

THE CHAIRMAN: The net saving is very great, isn't it?

COMMISSIONER LEMAN: Yes, but there does not seem to be any saving there from the fact of co-ordination.

MR. BEATTY: This yardstick---we have taken a reduced miloage and applied our unit to that result.

COMMISSIONER LEMAN: Track maintenance at one-third more would be about \$25,000,000 or \$26,000,000. It is \$33,000,000.

MR. BEATTY: Yes.

COMMISSIONER LEMAN: Shops and engine houses---it is twice.

MR. BEATTY: Yes.

COMMISSIONER LEMAN: Removing snow, ice and sand. It should be, say one-third more, and it is almost twice the amount.

MR. BEATTY: Yes. That is all reflected in the ratios, the operating ratios from year to year.

COMMISSIONER LEMAN: Now will you kindly turn to page 5 of Exhibit H. The Canadian Pacific shows, Superintendence, \$696,000; the Canadian National, \$2,009,000.

MR. BEATTY: Yes.

COMMISSIONER LEMAN: Considerably more than one-third more.

MR. BEATTY: Yes.

COMMISSIONER LEMAN: Steam locomotives, repairs, \$9,800,000 as against \$16,700,000.

MR. BEATTY: Yes.

COMMISSIONER LEMAN: Nearly twice the amount.

SIR JOSEPH FLAVELLE: It was in the year 1930 that you changed your method of providing equipment.

MR. BEATTY: Yes, sir, I think so.

SIR JOSEPH FLAVELLE: Would that be reflected?

MR. LLOYD: No. It would not be reflected, sir. It does not affect repairs. The equipment retirements are shown as a separate item down below, and we are almost on a parity.

COMMISSIONER LEMAN: Their charges should be more than one-third more.

MR. BEATTY: It would have to be scaled on the equipment inventory. We know they have a great deal ^{more} equipment than we have: they have practically twice as much on the basis of what they declare as being their investment in equipment. They declare about \$400,000,000, and ours is \$220,000,000.

SIR JOSEPH FLAVELLE: You absorb your new equipment into your charges, whereas they debit it to equipment account.

MR. LLOYD: But when we come on to the same basis, as shown in the Exhibit here, our retirements are \$2,800,000 and theirs \$2,600,000.

COMMISSIONER LEMAN: That applied to one item. Take page 9 of Exhibit H, the first item: \$2,400,000, and \$4,100,000; station service, \$12,700,000 and \$18,473,000.

THE CHAIRMAN: What is the cause of the enormous discrepancy in the case of the telegraphs and telephones?

MR. LLOYD: It is carried over on to Exhibit I. Of course we have not got that express service; it is operated as a separate company.

COMMISSIONER LEMAN: Yard service, \$10,000,000 and \$8,000,000; other expenses \$4,500,000 and \$7,200,000.

MR. BEATTY: Those are general expenses.

SIR JOSEPH FLAVELLE: I take it that these figures which are put before us in this form are taken from the official published statements of the respective corporations. This raises the question of whether there is an extravagance in the administration, under existing conditions, in one system as compared with the other. If there is no other factor, that is a very important one for our consideration. Just offhand it is a bit difficult to accept these figures unless your officers feel quite sure that they represent the same thing, with the exception that there is a difference of mileage. I should think, with all the capital expenditures set up to 1930 on the National system, one could reasonably expect the physical condition of the two properties to be---

MR. BEATTY: Relative.

SIR JOSEPH FLAVELLE: Yes. And with two properties in a relative condition, broadly speaking, is there any factor not discovered in your study which would account for these very remarkable differences? Take station service, for instance. What is involved in that?

MR. LLOYD: The employees at the stations, and supplies.

SIR JOSEPH FLAVELLE: You are assuming the mileage to be a third more.

THE CHAIRMAN: Railway operating expenses: if you look at the totals you will see an increase of \$41,000,000 or \$42,000,000, virtually sixty per cent---the first two columns of page 2, \$70,000,000 and \$111,000,000 or \$112,000,000.

MR. COLEMAN: There is \$10,500,000 in there for which there is no corresponding item in the C.P.R.

COMMISSIONER LEMAN: Even then it is about thirty per

cent.

THE CHAIRMAN: Take that then as one hundred---three-sevenths.

COMMISSIONER LEMAN: That is for a third greater mileage.

SIR JOSEPH FLAVELLE: That is not so far out as some of the individual items.

COMMISSIONER LEMAN: Look at page 12. There you have a ratio of more than two to one---\$4,095,000, and \$9,297,000. They include pensions in that, but even cutting out pensions you would have \$7,000,000 against \$4,000,000. Salaries and expenses of general offices are more than double.

THE CHAIRMAN: If you take out your \$2,000,000 you have seventy-five per cent. I am taking the totals.

COMMISSIONER LEMAN: Salaries and expenses of clerks.

MR. BEATTY: That is in numbers more than in rates; it would be the greater number of employees per mile of line.

THE CHAIRMAN: Is that because of their extended area?

MR. BEATTY: Partially, and partly, I think, because they are a little more generously staffed than we are. They always have been.

SIR JOSEPH FLAVELLE: Under what conditions are you able to get their figures? By co-operative efforts?

MR. BEATTY: These are in the published reports.

COMMISSIONER MURRAY: In those first items there can be no other factors.

SIR JOSEPH FLAVELLE: \$517,000; \$1,100,000; \$4,095,000; \$9,279,000---are they more litigious than you are?

MR. BEATTY: Or else they need more advice.

COMMISSIONER MURRAY: What is the blank opposite pensions?

MR. BEATTY: They charge pensions into operating. We don't. We make it a special item. Every year it is voted by the Directors. Of course, they have a much larger pension list than we have.

COMMISSIONER WEBSTER: What is the proportion of the personnel of the two companies?

MR. BEATTY: In numbers?

COMMISSIONER WEBSTER: Yes.

MR. BEATTY: They have been readjusted very considerably, Doctor. The total we have for the year 1930 is: Canadian Pacific Railway, 61,600; the Canadian National Railways, 82,129. But those figures do not mean anything now. Both companies have been cut to a considerable extent.

THE CHAIRMAN: That discrepancy corresponds very closely with the discrepancy in mileage.

MR. BEATTY: Yes, sir, just about one-third.

COMMISSIONER MURRAY: Can someone figure out a comparison in terms of one hundred, to show how many more men it takes to do the same work on one system than it does on the other.

THE CHAIRMAN: So far as the numbers are concerned, on these figures the percentage is about the same as the mileage percentage.

MR. COLEMAN: The difference in mileage is really forty-three per cent, sir.

COMMISSIONER LEMAN: They have forty-three per cent more?

MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: On account of you leaving out your mileage in the United States, while theirs is included.

MR. COLEMAN: We only operate lines in Maine and Vermont. They are included.

COMMISSIONER LOREE: What is the mileage?

MR. COLEMAN: 23,768 and 18,658.

THE CHAIRMAN: The total here, leaving out pensions, shows a difference of seventy-five per cent.

SIR JOSEPH FLAVELLE: Oh, no, sir.

THE CHAIRMAN: Yes, the totals of the first two columns.

SIR JOSEPH FLAVELLE: Oh, no, it is four as to seven.

COMMISSIONER WEBSTER: We have the operating ratios, but there is a big difference.

MR. BEATTY: I haven't got them. Have you got the comparative operating ratios for 1950?

MR. LLOYD: That is not here.

MR. COLEMAN: There is usually a ten point difference.

MR. BEATTY: It must be in one of the exhibits we filed before, Doctor.

COMMISSIONER WEBSTER: It is, I know.

SIR JOSEPH FLAVELLE: The mileage is sixty as to forty.

THE CHAIRMAN: Fifty-seven and forty-three.

SIR JOSEPH FLAVELLE: The two mileages together are 40,000.

MR. COLEMAN: 40,426.

SIR JOSEPH FLAVELLE: About sixty per cent for one and forty per cent for the other.

MR. LLOYD: Forty-three and fifty-seven.

MR. COLEMAN: They have forty-three per cent more than we have.

THE CHAIRMAN: No. It is one hundred and one hundred and forty-three. That is the way to look at it.

MR. BEATTY: They are forty-three per cent in excess of us.

THE CHAIRMAN: Quite so.

MR. BEATTY: And, Sir Joseph, you would be just about right.

SIR JOSEPH FLAVELLE: It is about sixty-forty---

THE CHAIRMAN: No. Your percentage of the whole mileage is 24.3 of the total mileage.

SIR JOSEPH FLAVELLE: The total mileage is 40,000. If you divide 40,000---

MR. COLEMAN: We have forty-one per cent of the total, and they have fifty-nine per cent.

THE CHAIRMAN: I am taking the percentages given a moment ago. Those percentages give one hundred and forty-three and one hundred, making two hundred and forty-three.

MR. COLEMAN: They are forty-three per cent greater in mileage than we are, but our percentage of these totals is forty-one and one-fifth.

COMMISSIONER LENAN: But the expenses are larger than that?

MR. BEATTY: Yes, All through the account I think that is the case.

SIR JOSEPH FLAVELLE: What are the circumstances, Mr. Loree, the factors that would contribute in two systems of railways, other than the mileage?

COMMISSIONER LOREE: Grades would be very serious. The New York Central is about sixty-five miles longer from Chicago to New York than the Pennsylvania, but by reason of its lighter grade it is the rate making property. The Pennsylvania has to follow its rate.

SIR JOSEPH FLAVELLE: And notwithstanding the expenses of the heavier grades they can get no return per mile.

COMMISSIONER LOREE: They do not get enough.

SIR JOSEPH FLAVELLE: Broadly speaking, is there much difference in the grades? You have heavier grades in the mountain, Mr. Beatty.

MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: Your prairie grades would be about the same; you would be on a little lower grade than the Canadian National.

MR. BEATTY: The average of grades in the West on branch lines would be fairly comparable.

MR. COLEMAN: But on the through line their grades would be better than ours.

SIR JOSEPH FLAVELLE: The operating ratio has something to do with the density of traffic.

MR. BEATTY: The volume of business.

SIR JOSEPH FLAVELLE: You get your advantages above, the bit you get at the top; your operating ratio goes down as volume goes up relative to the same body of expense.

MR. COLEMAN: Our density of traffic is a little higher per mile than theirs. That is why they show a larger abandonment.

THE CHAIRMAN: What is the average density? Have you got the figures for that?

MR. LLOYD: We have not got them here.

MR. BEATTY: It is taken off every week.

THE CHAIRMAN: It is just to compare operating ratios and the ratio of density.

SIR JOSEPH FLAVELLE: If we were discussing with the Canadian National Railway the relative cost of operations of this kind, is the situation such that we could ask questions based upon your statement.

MR. BEATTY: I think so, Sir Joseph.

SIR JOSEPH FLAVELLE: These are both published statements?

MR. BEATTY: These figures of theirs are official. None of them are of our own making.

COMMISSIONER LEMAN: We could use these tables in discussion with them.

MR. BEATTY: Yes, sir. As a matter of fact, I think the figures that we use are to be found in figures filed with you at the earlier part of the enquiry.

COMMISSIONER LEMAN: Referring to the various lines indicated in your memorandum of unification, have you thought out any method whereby you could unscramble those lines or ensure permanency of operation if one unit was separated from the other, or are you contemplating something that is definitely united.

MR. BEATTY: I do not think they are unscrambleable if your effort is to secure maximum economy.

COMMISSIONER LEMAN: But to contemplate the possibility of leaving both units in a condition where they could be operated---could you do that through the securing of running rights of long duration to protect both systems?

MR. BEATTY: My view of that has always been that if you approach this with the idea that you are going to have maximum economies you cannot at the same time restore those in a few years in the condition in which you got them. I do not think that is possible. If you are going to abandon a piece of track because you don't need it, you won't save much if you say in five or six years "I have to give it back in the condition in which I got it."

Let me give you an example. Take that line of ours from Parloons to Patsin. That is part of the original main line of the Canadian Pacific Railway. It has been maintain-



ed to a very high standard of maintenance. It has adverse grades, as you know. If this property was being administered jointly with the Canadian National property, and we said we were going to use their lower grade line, the management always have to have in mind the question "Can we abandon that other piece of property knowing we are never going to revert to its use, depending upon the possibility of having running rights over the National?" Will that be satisfactory some years hence? That is always before us. Can we go as far as we should go in order to bring about those economies when there is a possible return of this property.

COMMISSIONER LEMAH: That is the cycle in railways, twenty years, twenty-five years, or more or less. It is extraordinary what ten or fifteen or twenty years, with money working, means in dollars and cents.

MR. BEATTY: It means this too, Mr. Lemah: In a country like Canada which, because of its youth and extent, is subject to changes, we cannot tell what the condition will be in fifteen or twenty years. You want to find a way to an intelligent decision at that time, without too much embarrassment; meantime you want to save all the money you can.

COMMISSIONER LEMAH: That is where we want enlightenment.

MR. BEATTY: Well, if you can find a way to eliminate the Government in the interim we will be taking a long step in the right direction. I am as convinced as I am that I am sitting here that if three years from now there was an upturn in business which was, say, substantial, we would meet the same kind of competition and competitive extravagances that we have faced in the last eight years, and



while we think we have learned the lesson and wont be extravagant, I do not believe we will realize that hope.

COMMISSIONER LEMAN: There may be another government that has not had that experience.

MR. BEATTY: And if it becomes advisable for political reasons to spend money on railroads, it will be spent. It is always policy except in times of great depression.

COMMISSIONER LEMAN: The point is this. Is it possible, over a period of time not too long and not too short, to have the effects of unification without placing the public of the country face to face with a stone wall where they can see no possible way of separating these two units again and having the benefit of what you consider might be the solution, competitive railway lines privately owned and managed.

MR. BEATTY: My fear would be that the time you would require would be so long that in the estimation of the public it would be subject to the same objections as unification permanently. If it were a short period it would probably be accepted by the public as a reasonable alternative, a reasonable way of meeting the situation and conditions, but I do not think it would be long enough to enable us to do what I think we should do.

Take a five year period. I would not say there would be any chance of accomplishing very much within that time, with the knowledge that at the end of the period the properties would have to be turned back to their owners.

COMMISSIONER LEMAN: What about ten years?

MR. BEATTY: It is that much more, but when you consider that we think it will take us five years to work up to maximum economies you will see that it would only give us a leeway.



COMMISSIONER LEMAN: Fifteen years.

MR. BEATTY: You are getting to the point now where the time raises the same objection in the public mind as a permanent arrangement.

COMMISSIONER LEMAN: That is a period that men visualize readily enough in their lifetime.

MR. BEATTY: We know that the last fifteen years has been a very short period to most of us.

SIR JOSEPH FLAVELLE: In your plan of unification, Mr. Beatty, is it your thought to terminate the public control ultimately of the public property? It would be in essence a merger? Is it your thought that a publicly owned property should disappear?

MR. BEATTY: The unification we have been discussing has been one of administration, not of ownership.

SIR JOSEPH FLAVELLE: To let ownership remain.

MR. BEATTY: Yes. And then I did suggest in the previous memorandum an enlargement of the powers of the Railway Commission, or the establishment of another tribunal. There should be strict regulation.

SIR JOSEPH FLAVELLE: You were thinking in terms of a lease, in your original memorandum.

MR. BEATTY: Yes. That was only to provide administrative unification.

SIR JOSEPH FLAVELLE: Are you still thinking of that same general basis as discussed in your first paper?

MR. BEATTY: Yes, sir.

SIR JOSEPH FLAVELLE: Have you reached the point at all as to what would be done with the earnings of those properties? I am speaking only broadly. You have invested in your properties, as represented by debentures, preferred and common stocks, somewhere about \$900,000,000.

MR. BEATTY: Yes.

SIR JOSEPH FLAVILLE: The National system has about \$1,275,000,000 of securities outstanding and in the hands of the public, \$800,000,000 of a loan, and \$400,000,000 in the Government owned road, what they call the eastern lines, altogether about two billions or two billion one hundred million. Was it in your mind that there would be an attempt to revalue the public property?

MR. BEATTY: No, sir, neither property. May I say what I think about the capital set-up of the National railways? At times there has been considerable agitation as to whether or not the existence of this very heavy loan is not unfair to the management, and discouraging, etc. I can quite understand that if the National were disposed of to another institution a readjustment of the financial structure would be inevitable, for no possible purchaser could assume what is outstanding on the books against railway operation. But so far as readjusting it by the present owners for the purpose of dividing it into two books---one a Government blue-book, the other a railway investment book---I can never see much in it. The evidence was it was discouraging to the employees and officials to have a tremendous capital indebtedness against the property. The alternative to that---writing down---seems to me much more dangerous than the fear of discouragement to the operators. We do as taxpayers, owe this money and expect to pay the interest on it. It does represent a railway investment, whether wise or unwise, and it should be shown in some such way as is accurate and intelligible, and just writing it down and carrying it in another set of books never seemed to be either logical or wise.

In this arrangement, unification for administration,

I do not believe the capital structure of the Company needs to be interfered with. I am not prepared to discuss any details, nor do I think it would be wise for the Commission to ask me for suggestions; but I have always thought that we could reach the results by a division of the net earnings of the combined properties between the two sets of owners, on an agreed division of net earnings.

COMMISSIONER LEMAN: In what direction would you seek that division? Mileage, or what?

MR. BEATTY: To ascertain it?

COMMISSIONER LEMAN: In what direction would you seek that basis of division? On the capitalization basis?

MR. BEATTY: I would take the gross earnings of the combined system and deduct the gross operating expenses of the combined system, and what is left over I would divide in agreed proportions between the owners of the C.P.R. and the Government of Canada. The agreed proportions would be ascertained by taking, for example, the percentage of each company's earnings to the total over a period of years, net.

COMMISSIONER LEMAN: What if the proportion was zero?

MR. BEATTY: I am not talking about income---earnings. I am not taking off fixed charges, because from what each company would get it would meet its own fixed charges. That is only one aspect of the matter.

SIR JOSEPH FLAVELLE: In the unified plan you would continue to keep two sets of accounts?

MR. BEATTY: You would not need to.

SIR JOSEPH FLAVELLE: How would you ascertain the earnings of each system during the period of unification?

MR. BEATTY: It would be the earnings of the joint system.

SIR JOSEPH FLAVELLE: Then you would make the relative basis as when they united.

MR. BEATTY: No, before, over a period of years.

SIR JOSEPH FLAVELLE: 1923 to 1930?

MR. BEATTY: Or 1925 to 1930---a period of years that would give a fair representation of the operations of the two companies.

THE CHAIRMAN: Then the advantage the Government would get would depend on that ratio.

MR. BEATTY: Yes, sir, and also ourselves.

SIR JOSEPH FLAVELLE: The relative proportion which would go to each would be determined by the relative earnings from a period named to the time when the transaction was completed. The amount of savings which would be effected, so as to relieve the pressure upon the country, and the payment of fixed charges, would by that process be quite small.

MR. BEATTY: Depending on what the gross earnings are.

SIR JOSEPH FLAVELLE: The net earnings.

MR. BEATTY: The net depends upon the extent to which normal business returns.

SIR JOSEPH FLAVELLE: What you are confronted with, Mr. Beatty, is this: Not thinking of the C.P.R.; thinking of the position of the country, which has led to this enquiry, you have \$137,000,000 of interest to pay; you have \$60,000,000 of pensions to pay; you will have this year, I suppose, according to the manner in which the accounts are met, \$60,000,000 to pay.

MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: Now, these three items aggregating \$250,000,000 compare with \$16,000,000 in 1914. It may

be, for instance, that we are as much mistaken in looking forward as we have been in understanding the character of the present depression, and that following the Great War we are in such a historic period as that of 1815 to 1845--- during which, in 1832, seventeen years after Waterloo, came the Reform Bill---when it was hoped conditions were going to be permanently better, but ~~instead~~ we had the Hungry Forties which led Peel to reverse his lifelong view and repeal the Corn laws. We started out believing that we had met our loss in the gallant fellows who died, and by assuming the debt incurred by way of pensions, and in the twenties we experienced a certain discomfort. Now we have a secondary effect---if it is a secondary effect---of the Great War, in the political disturbances and the bitter- nesses and misunderstandings which have arisen, all of which have killed business. If this condition continues for a longer period than we had hoped, and the intensity of the depression does not bring its own relief, but the whole human family is to be disciplined until they are able to establish normal relationships with their neighbours, what is the extent of the relief to be secured from any proposal by this Commission? Never mind the 1,600,000,000 of loans; never mind the money which is in Government railways; we have to pay interest on \$1,275,000,000, and we have to find a capital sum over and above the loss that runs to twenty, thirty, forty, fifty, sixty million dollars a year.

Under your plan, which is an emergency plan to deliver the country from the peril in which it is, how much a week are we going to get?

MR. BEATTY: This not only is intended to remedy in a fair period of time the existing conditions, or to help remedy them by avoiding waste and bringing about economies

but it is supposed to prevent a recrudescence of the same situation in future years.

SIR JOSEPH FLAVELLE: That is capital expenditures?

Mr. BEATTY: Quite, and competitive measures that are extravagant.

SIR JOSEPH FLAVELLE: The permanent relation between the two properties, you say, is to be the earnings as discovered over a period prior to the execution of the transaction. With a discrepancy of 40 per cent in the railway mileage, and a discrepancy in the expenditure, that leaves an overwhelming advantage with the private line.

Mr. BEATTY: No. We have not worked out those figures except in a very general way. I thought that would be the next stage that we would have to work out.

SIR JOSEPH FLAVELLE: If the basis of the participation of the Crown in the net results of the savings which are to be effected permanently by reason of this unification is to be determined by the relative net earnings of two systems as between two given dates prior to the unification, that is a permanent condition?

Mr. BEATTY: Yes, sir.

SIR JOSEPH FLAVELLE: And there is no relief in that?

Mr. BEATTY: Oh, yes.

SIR JOSEPH FLAVELLE: There is no relief in the interest bearing sum of, say, \$1,275,000,000 of outstanding securities.

Mr. BEATTY: There would be an immediate and growing relief as gross earnings increased.

SIR JOSEPH FLAVELLE: Perhaps I misunderstand. I understood the relative positions of the two corporations to be this: if the earnings of the one were there, and of the other here, that is the relation permanently, and the



benefits which might accrue would be as between the two systems---

Mr. BEATTY: Yes. You must, it seems to me, provide a formula.

SIR JOSEPH FLAVELLE: I am only thinking of the formula as affecting the position of 40 per cent more lines of railway with two and a quarter times the cost. I am thinking of the \$600,000,000 and the \$400,000,000 being gone; taking the amount upon which we must pay interest.

Mr. BEATTY: The interest due the public?

SIR JOSEPH FLAVELLE: The interest due the public. Now, if we take a pre-agreement period of years as settling the future relative positions of the two corporations, it is easy to prepare a graph to show where they would be.

Mr. BEATTY: Yes, sir, and also in the alternative--- because in either proposal it was suggested there should be various ratios depending upon what earnings were.

SIR JOSEPH FLAVELLE: I am centering on the plan of unification which is before us. No one could have stated more exactly than you did what would be the ideal relationship of the two properties conducted with a due regard for one another's safety, sound financing, and so on. Is it possible among the things you indicate that the amount of savings which, so far as your people can see, would be secured by operating two lines of railway now by the best sort of co-ordination, or by an understanding whereby some of the vicious sides of competition would be eliminated? I am not sure the company would not be better to take the second than the first.

Mr. BEATTY: I would not make up my mind about that until I saw the results. We have not yet completely calculated them, and I do not come prepared to discuss that in

detail, because I do not think I can.

THE CHAIRMAN: I suppose that ratio is a matter of bargaining.

Mr. BEATTY: Yes.

THE CHAIRMAN: You take as your starting point some period of years.

Mr. BEATTY: It might be, in considering what conditions would be, that you would say as earnings improve a greater percentage should go to the Government than to the other partner. I can easily see how that would appeal to you, because you say we must have national relief in this thing either now or in the future, and in order that the plan may be acceptable the relief has to be fairly substantial. I think I can elaborate that for the Commission when it sits again.

SIR JOSEPH FLAVELLE: I am sure it would be most valuable to us.

COMMISSIONER LEMAN: To take another channel of thought, and to put the question brutally: if you wanted to make an economy of \$62,000,000 within the next twelve months for the benefit of both companies, if the Government of this country and yourselves would say "We are going to cut down wages and salaries by 25 per cent, including the 10 per cent---"

Mr. BEATTY: 15 per cent additional?

COMMISSIONER LEMAN: 15 per cent additional. You would have as compared with 1930, when the pay roll and wages amounted to about \$252,000,000, if I recollect it right, a considerable saving. What would you think of that?

Mr. BEATTY: Well, I of course agree with the propriety of it as a matter of economy. Whether it is possible of accomplishment in this country I would not like to say. It

would certainly receive a great deal of public support apart from Labor itself. It would be a proper thing to do.

COMMISSIONER LEMAN: In other words, dealing with it from a little different angle, does it not come down to this: what is the better thing to do, to keep a higher wage scale for a smaller number of people or a lower wage scale for a greater number of people? That is the crux of the whole problem, is it not?

Mr. BEATTY: Well, it is stated a little baldly the way you put it. There is unemployment and there has been a reduction of staff, and also what we think is a fairly moderate reduction of wages, which has been accomplished after a great deal of effort and negotiation through tribunals. It does not follow that if we reduced wages 15 per cent we would increase substantially the number of men employed, because the traffic is not there at the moment and may not be there during the balance of 1932. Personally, I would think your 15 per cent would not cause the full saving that you anticipate. It would not cause the saving which would result from the abandonment of facilities, for example.

Of course, I may be one of those who takes an extreme view, but I believe we should all be prepared to take a substantially greater cut during the period. I think that would be the view of the officers of the C.P.R. as a whole, respecting themselves, if it were going to be uniform. They would not want to be singled out for drastic reductions if others did not have to face the same reduction. That is perfectly feasible providing you can get enough public and parliamentary support to permit of its being done.

COMMISSIONER LEMAN: If that were done and the Govern-

ment adopted a policy whereby there would be no further grants of money for capital or fixed charges for the C.N.R., do you believe that with a 25 per cent cut in their wages they could keep going?

Mr. BEATTY: The Canadian National?

COMMISSIONER LEMAN: Yes.

Mr. BEATTY: Oh, no, I don't. I can easily give the figures to show why I don't think so. Off hand I should say not. There are certain elements in that which are almost uncontrollable. We talk a great deal about political interference being damaging to railway operations, and we know that that is true, generally speaking. But when we say it we seem to think the only political influence is that exercised by a government or a member of a government or a member of parliament. To my mind the worst kind comes from the political attitude of men in publicly owned institutions. Possibly they are not conscious of it, but they become politically minded; their policies and actions have a political tinge, and that, from my standpoint, is more serious as representing the attitude of the corporation than the isolated act of a member of parliament who tries to get a man employed.

Years ago the ability of privately owned railway companies to withstand political pressure was somewhat limited. To-day it is nothing like it was, because we can say so to the public institution, to that kind of pressure. But the politics that develop inside an organization because it is publicly owned, and not privately owned, is a serious thing.

We spoke of not being able to anticipate what government policies would be towards any railway, and I believe

we cannot tell from year to year what the policy of any government would be in respect of its railway property, providing it owns it, and has a measure of control of its policies, and so long as we are putting up the money we cannot avoid that possibility.

We embarked upon a public ownership policy not from choice but because certain railways were in trouble. We were in the middle of a war, and we did not want the credit of the country to be impaired, and we took over those railways willy-nilly. Then we began to experiment. The first intention was to put them in shape. We did that. Then we went on with an unlimited expansion of those railways and in consequence acquired a very huge capital liability. Who is to say that that policy will not be repeated five or ten years from now by a government and that there will not be millions of dollars spent, as there has been on public works that are absolutely unjustifiable if it were not for the fact that they are public institutions, or some political advantage is to be gained. That is the danger that I foresee and which I am anxious to prevent. We all think we have learned our lesson, but I am not so sure that we have. I am not sure that our memories are long enough to keep us from forgetting in five years. This is a young country and we may go along with our programme exactly as we did before.

COMMISSIONER LEMAN: In your project of unification do you visualize carrying on through the instrumentality of the C.P.R., or have you been investigating the advantages or otherwise of a third body stepping in and carrying on--- a body upon which the Government and yourselves would be represented and which, of course, would take the responsi-

bility for everything that is to be done in the way of abandonments, including the dissatisfaction created thereby, and the bringing together of the policies of the companies which would retain their identities.

Mr. BEATTY: That is feasible. It has two disadvantages. It brings the Government into closer association with the administration of the properties than I think is wise, and it also renders doubtful the type that would be selected for appointment to the Board. The reason I suggested the Canadian Pacific as the means is that I would rather start with a Board that is known. I did think there would have to be added to the Board in course of time men not necessarily nominees of the C.P.R. If the Government selected the directors I would not like it, but if the Government established a tribunal to select them, an independent body composed of men, as I have mentioned, from the Canadian Bankers Association, the Canadian Chambers of Commerce and a Judge of the Supreme Court, then of course you would be almost certain to get the type of men whose ability would justify the selection.

COMMISSIONER LEMAN: Would there not be a great advantage from the C.P.R. point of view in not having the odium and unpopularity of deciding? You have 5,000 miles of road that you contemplate abandoning. That is not a popular move.

Mr. BEATTY: No. To that extent it would be helpful. Perhaps we could not escape our share of the responsibility no matter what happened.

COMMISSIONER LEMAN: But if you contemplate resuming your identity at a later date would there not be some advantage in having a third body during the intermediate period?

Mr. BEATTY: We have always contemplated from the beginning that there would be an over-riding Commission which would be a court of appeal in all these matters. It would be in the shape either of a glorified railway commission or a separate and independent body which would pass on this very thing, and permit or refuse to permit the abandonment of properties in the public interest. I think that is essential. I do not think you should say to a private body of men like a Board of Directors "You have unlimited power to do these things."

COMMISSIONER LEMAN: If there was a body of that kind interposed, as it were, would the public be less fearful of the appearance of a monopoly.

Mr. BEATTY: I think so. I think the public would regard that as a safeguard provided for them.

COMMISSIONER LEMAN: You mean your regulating body?

Mr. BEATTY: Yes.

COMMISSIONER LEMAN: I mean if unification was carried out by a company operating both companies under your unification plan.

Mr. BEATTY: I do not think the difficulty is great enough to amount to much in actual practice. I put great store in the over-riding commission.

COMMISSIONER LEMAN: Would the C.P.R. consider going into an operating scheme of that character, not knowing that it would control directly or indirectly that operating board? Would your shareholders consider it?

Mr. BEATTY: That I could not answer. I do not know whether they would or not. I do not think it would be very appealing to them, but conditions are acutely sub-normal, and they realize that as well as we do.



COMMISSIONER LOREE: In starting on the abandonment of these lines---in abandoning one line in the Frazer Valley, and the line northwest of Saskatoon, I suppose the double service to the same communities was the deciding factor.

Mr. BEATTY: Yes, sir.

COMMISSIONER LOREE: As to the others what was the factor determining whether the line should be abandoned or not?

Mr. BEATTY: Just whether the traffic could be taken care of equally well by a parallel line, or whether the line was essential from the public interest.

COMMISSIONER LOREE: We rather felt in the United States that a line that had traffic of less than 250,000 ton miles a year was not self-supporting. On that basis the mileage to be abandoned in these two systems would be about 16,000 miles, and I wondered why it was limited to 5,000.

Mr. BEATTY: We studied the parallel conditions, mostly: could we withdraw this mileage from operation without hurting anybody? We think we could. We put that as a minimum, not the maximum.

COMMISSIONER LOREE: That indicates that you propose to abandon the line to Prince Rupert?

Mr. BEATTY: No, sir.

COMMISSIONER LOREE: Is there any reason why that should be maintained?

Mr. BEATTY: None except political reasons.

Mr. COLEMAN: It is the only line in northern British Columbia.

COMMISSIONER LOREE: It is not an economic reason.

Mr. BEATTY: Oh, no.

THE CHAIRMAN: What is the population of Prince Rupert?

Mr. COLEMAN: I think it is about 3,000.

Mr. BEATTY: They expected to make that a second Vancouver, no doubt.

SIR JOSEPH FLAVELLE: In reference to the abandonment of lines which carry a specific bonded indebtedness, I suppose your ultimate, considered plan would have some basis whereby some covenant should take the place of the covenant on the land.

Mr. BEATTY: Yes, unless the bond holders considered their position more amply protected otherwise.

SIR JOSEPH FLAVELLE: If you have a line one hundred miles long, and you lift the rails, they only have the bonded indebtedness; they have no participation in the other earnings.

Mr. BEATTY: There is very little of that in the C.P.R.

SIR JOSEPH FLAVELLE: I am thinking of the whole situation. You have a situation now on the Canadian National where the lines of road have been lifted, and the Government has gone on paying interest on the bonds.

Mr. BEATTY: They would probably have to continue to do that.

COMMISSIONER LOREE: The saving indicated is about \$64,000,000 at the end of, say, a four or five year period of re-adjustment. If you were to abandon 5,000 miles of road by suspending service on twenty-four hours notice or a months notice, and were to make a 25 per cent reduction of wages as against 1930, you might look for a saving of about \$74,000,000 as contrasted with \$64,000,000, and you

would get the results within a few months instead of waiting for five years. Is not the immediate surgical operation needed rather than a long convalescence?

Mr. BEATTY: We need both. We have to provide if we can for protection against a future recurrence of these things. That is just as important as a remedy now. I believe that we should do anything that can be done now that means an immediate saving, but I do not think we should avoid the possibility of providing at the same time a solution of the railway situation.

COMMISSIONER LOREE: The first solution that presents itself will be the preservation of competition by the continued existence of the two lines.

Mr. BEATTY: Under your system that would be possible, but it would not solve the situation ultimately. If competition and duplication is responsible for this condition, we have to find a remedy for that.

COMMISSIONER LOREE: I am rather surprised at the wide difference between the amounts that would be saved by cordial co-operation and the amounts that would be saved by unification. For example, the Pennsylvania handle all their east and west business on the Panhandle on trackage rights on a road owned by the B. & O. They have done that for fifty years. Could not a similar arrangement be worked out in the Frazer Valley with equal satisfaction?

Mr. BEATTY: That probably lends itself to that solution. It is all included in the co-operation.

Mr. COLEMAN: The mileage shown in the statement with respect to co-operation is the mileage agreed upon between the officers of the respective companies as mileage that might be considered for abandonment.

SIR JOSEPH FLAVELLE: How much is that?

Mr. COLLEMAN: 1,582 miles.

COMMISSIONER LOREE: I should think, confronted with such a responsibility, the amount of abandoned mileage might be maintained or even increased.

Mr. BEATTY: You mean without duplication?

COMMISSIONER LOREE: Without duplication.

Mr. BEATTY: Of course, a big section of that relating to the National is something they can do to-morrow. It is their own problem as far as that section is concerned.

COMMISSIONER LEMAN: As I understand it, you feel that co-operation would still leave the fundamental difficulty of a privately owned company competing with the Government.

Mr. BEATTY: Yes.

COMMISSIONER LOREE: I was assuming the possibility of the Government disposing of its property also.

Mr. BEATTY: That would meet our views. Of course, we would like to see that happen. That would involve re-construction of capitalization.

SIR JOSEPH FLAVELLE: There is a portion of the investment in railways which is part of the debt of Canada. There is no deliverance from that. It is a question of proportion, and our people ought to be told that that is the case. Speaking as I would if I were in a responsible position in a great private corporation which, in addition to having a very heavy investment of private capital had an enviable record in the country, I would feel that the marking down of the publicly owned property and the transfer to the public of the debt would create for the private corporation an added source of anxiety for fear of further profligate expenditure. There is no doubt that one of the



restricting influences in corporate management is the question "Where can I get the money?" The manager must first reach the conclusion that the proposed expenditure is sound, and then he has to satisfy someone who is going to supply the money that it is sound. We have had an absence of that influence in the case of the publicly owned property. There was no protest of an earnest character. But now that international credit has broken down we have reached a place where the burden is a very heavy one. I can quite understand a private corporation feeling that if this thing is cleared up, everybody conceding a good deal, how are we to know that we will not be in the same mess again by reason of a subsequent parliament allowing a repetition of the condition?

Mr. BEATTY: Let me put it this way. The total investment in the National Railways---investments, advances, paid losses and everything else---is about \$2,600,000,000. The bonds or securities in the hands of the public, and for which the railway is directly responsible, or the Government, by way of guarantee, are, I think, about \$1,200,000,000. The fixed charges on those are roughly \$57,500,000. That is the figure that has always been given to the public, and that is the figure that was given when the National failed to earn their interest. Then there are other charges, including the \$32,000,000 owed to the Government, which they claim to be only book-keeping entries. If that capital structure was revamped and you arbitrarily deducted all those items which you thought were improper, inasmuch as the money was lost, there being no possibility of ever getting it back, and that ninety odd million that they carry in their books against the Canadian which is only represented by---

SIR JOSEPH FLAVELLE: The Government department does not carry that. I think the figure you call \$2,600,000,000 is \$2,100,000,000. I am not speaking of the Canadian Government railways in their statement.

MR. BEATTY: That is the one I refer to.

SIR JOSEPH FLAVELLE: Taking the position broadly, it is this: \$1,275,000,000 of bonds; \$604,000,000,000 of open indebtedness---

COMMISSIONER LEFAN: Without interest.

SIR JOSEPH FLAVELLE: Quite. \$4,400,000 invested in Government railways---the Intercolonial and the Transcontinental. These come, roughly speaking to \$2,200,000,000. But entering into the books of the National Railway system, the Canadian Northern share capital is \$90,000,000 or \$100,000,000.

MR. BEATTY: They paid only \$10,000,000 for it.

SIR JOSEPH FLAVELLE: But as far as the Department of Finance is concerned, I think that item is carried at the cost to the country. The accounts of the railway and the accounts of the Department of Finance do not in all respects follow the same lines.

MR. BEATTY: If you arbitrarily took off \$600,000,000 from the \$2,200,000,000---

SIR JOSEPH FLAVELLE: If you took off all that is not due to the public you would still have a system of railways having a capitalization nearly \$400,000,000 higher than the capitalization of your system, including your common stock.

MR. BEATTY: You would have to include in your figure the actual cost of the investment of the Government.

SIR JOSEPH FLAVELLE: The \$4,400,000.

MR. BEATTY: Yes. That is \$1,600,000,000, which at

five per cent means fixed charges of \$80,000,000 a year.

COMMISSIONER LOREE: That is only one of several points of view. The owner would not want to see his capital put so high that he would be at a disadvantage with his competitor. On the other hand, the competitor would not want to see it so low that he would be at a disadvantage. The measure would be the relative capitalization of the competitor. Having accomplished that, the future of the property would depend upon two things, the capacity of the management, and its ability to say no. We are troubled not only with the immediate solution, but the future. We did not make much of a fist of the effort in the United States. I think we are going in for a twenty-five per cent reduction of wages.

MR. BEATTY: They have done that in places in the building trades.

COMMISSIONER LOREE: Yes.

MR. BEATTY: It would be very difficult for Parliament to give its approval to a reduction of that magnitude on the National Railways.

COMMISSIONER LOREE: Would it? The picture that is in my mind is that of a man with a huge appetite, who sits down and eats not only his own portion of the dinner, but the childrer's portions, and then goes to the pantry and eats what is there. Everybody gets tired of it. I do not know whether the public is not getting tired of the overfed train service.

SIR JOSEPH FLAVELLE: Of course they are not working full time.

COMMISSIONER LOREE: That is true of the community as a whole.

COMMISSIONER MURRAY: What do you think would be the



reaction of Parliament and the country to your scheme, Mr. Beatty?

MR. BEATTY: I have always felt, and my view has been confirmed, that if the fibre of the people of this country is anything like that of the people of Great Britain---there being no problem in Canada upon which there exists such colossal ignorance as the railway problem---and this Commission paints the picture accurately, even if it be in somewhat sombre colours, the vast majority of our people will sit up and take notice, and the influence of the report of the Board and the conclusions they reach will be far beyond anything of which we have any idea. Largely because this ignorance is so widespread, it is going to come as a shock to our people that there is any difficulty.

I have talked to men within a week who have said: "It is too bad about railway earnings. They are suffering with the rest of the country. The National Railways are suffering like the rest, but it is a great national asset." It cannot be both an asset and a liability, and the only thing the railways have to sell is service." If we cannot afford to give the service in Canada for what we are getting out of it we cannot hope to remain solvent. I think we are apt to under estimate the effect of this Commission's pronouncements. This is the first time an independent body of men have had a look into our railway situation in years. In almost every case we have been led up some political by-path, and no solution has been reached. I think we are at the end of that now, and I am not a pessimist about this country.

COMMISSIONER LEAH: Referring to your scheme of unification, you are afraid that too short a period might demoralize the steps you have in view to carry out certain



improvements. Of course, if you had a sufficient period within which to demonstrate that you are not sacrificing anything vital, anything reasonable in the way of service, and that your contract of operation, or your lease should be extended, would that be helpful and would it not be a strong inducement for you to do the best that could be done?

MR. BEATTY: Oh, certainly. It would be educative in its effect. There is no doubt about that. Every year that passes would tell the public and ourselves something about the situation. Your idea appeals to me because I have always hoped that some day we would have two private systems in reasonable competition with each other. If that could be brought about by a step of this kind, it would be a very fine thing; but obviously there is no chance of a private company stepping in to-day.

SIR JOSEPH FLAVELLE: Any private company undertaking to take over the Canadian National Railways would fix the value at something less than the vested indebtedness.

COMMISSIONER LEWIS: And the country would be making a big mistake in sacrificing under present conditions.

SIR JOSEPH FLAVELLE: Anything that is done has to be approved by Parliament. If there is a period for incubation and development of the means adopted, it becomes a period of observation. It would not mean an abandonment of public ownership, nor a passing over of the administration of any property to the C.P.R.; but if a company with directors chosen by the C.P.R. and the Government undertakes to administer the railways, and Parliament declares, as it would have the power to do, "We do not want this any more," what would be the position if any portion of the earnings, which were improved by reason of the savings



effected, had to be held in trust to be distributed to the respective owners for the re-establishment of the abandoned lines? That money would not be available meantime to relieve the pressure of financing the roads.

MR. BEATTY: No.

SIR JOSEPH FLAVELL: You could not lend the money to yourselves in the same enterprise?

MR. BEATTY: That would be accompanied by contingent liabilities to use them.

SIR JOSEPH FLAVELL: If you take into consideration the implications of a plan whereby a corporation representing the two interests came in as an operating body, it would give the country an opportunity to observe whether what happens under unification is favourable or unfavourable, if political vagaries would not lead to breaking it up.

We have had plans presented by the various interests, and in the last analysis we will be greatly benefited by the judgment of experienced men who have operated railways. All sorts of people make suggestions having nothing behind them except a desire, and the reaction of your officers and yourself must necessarily as we get further into our work become increasingly important, because you bring experience to bear on the various considerations.

MR. BEATTY: I should like to explore that labour suggestion of Mr. Loree's. It is very definite and concrete, but it is good only if it can be accomplished.

COMMISSIONER LOREE: Let me go a little further. Ten per cent has already been secured.

MR. BEATTY: For a year.

COMMISSIONER LOREE: Assuming that the time limitation was out of the way and that you were looking for a further fifteen per cent---I am thinking along the lines of five per



cent on the first of May, five per cent on the first of July, and five per cent on the first of September---it would break it down a little bit.

MR. BEATTY: Yes.

COMMISSIONER LOREL: Of course I recognize the very great difficulty of dealing with that element of society. The roads of the United States, as you know, have arranged for a ten per cent reduction in wages, effective February first. I have worked out with the engineers and conductors an arrangement by which we guarantee them two hundred and forty hours a month, except the men on the Special Board, whether they work that many hours or not, and we wipe out all the so called "feather bed" practices, overtime, etc.

SIR JOSEPH FLAVELLE: And do not take advantage of the ten per cent reduction?

COMMISSIONER LOREL: We think we will get more out of it later, but not at the expense of the men. What the tonnage of the firemen and the brakemen is going to be, I do not know, but I wonder if the men are not getting a little tired of their leaders and putting a little more value on safety.

MR. BEATTY: They were very slow to come to the point in Chicago, as you know.

COMMISSIONER LOREL: There were two elements in Chicago---the running trades, four brotherhoods, and there were nineteen other organizations. I think if it were to be done over the running trades would never associate themselves with the other nineteen organizations who, after all, represent only about thirty-two per cent of the employees of the road. The real delays were caused by differences of interests on the part of themselves, not between the men of the railroads.

One other question has been running in my mind, Mr. Beatty. If one line is leased to another there will be a temptation towards the termination of the lease to let the property run down. There have been some contracts whereby a sale was made with a right to repurchase at a fixed date. The effect of that was practically the same as a terminable lease.

MR. BEATTY: Yes.

COMMISSIONER LOREE: It had the effect that the lessee was apt to build the property up.

COMMISSIONER LEMAN: That would defeat the object we have in view.

THE CHAIRMAN: But there is the right to repurchase.

COMMISSIONER LEMAN: In the form of a lease?

THE CHAIRMAN: A sale, and the right to repurchase.

COMMISSIONER WEBSTER: Would the economies that you outline be affected at all by the attitude of the public?

MR. BEATTY: The attitude of the public might make the accomplishment of the programme slower.

SIR JOSEPH FLAVELL: You would have to get the permission of the Railway Commission for each abandonment.

MR. BEATTY: Oh, yes. If Parliament gave their approval, of course it would be different.

THE CHIEF COMMISSIONER: In the form suggested, operations by a third corporation for a limited period of years, five, ten or fifteen, why should not the elimination of services be made part of the arrangement and provided for from the beginning?

SIR JOSEPH FLAVELL: In principle rather than in detail.

MR. BEATTY: It might be possible.

THE CHAIRMAN: I mean in detail.

COMMISSIONER LEMAN: With corresponding protection in the way of running rights.

THE CHAIRMAN: Whatever might be necessary.

SIR JOSEPH FLAVELLE: It would create a body of opinion at every section of the country.

THE CHAIRMAN: As I understand it, Mr. Beatty says there is very little interest of that kind involved.

MR. BEATTY: Public interest---very little.

SIR JOSEPH FLAVELLE: In the neighbourhood?

MR. BEATTY: To the extent of the railway employees.

SIR JOSEPH FLAVELLE: I was thinking of the spirit of the constituency.

MR. BEATTY: In answer to Judge Duff's suggestion as to whether or not a form of co-operation, confined to the abandonment of these lines and the joint use of the lines in the alternative, is possible, still leaving the two companies as they are in active competition---

SIR JOSEPH FLAVELLE: I would rather think the Judge's suggestion would be that, having regard to such a company as Mr. Lemm was suggesting---an operating board, practically as though you were united, but with the right of re-entry, with the implication that it continues until Parliament intervenes---

MR. BEATTY: I should like to explore the problem as to whether or not a compromise attitude which would involve unification for a period under a joint board is reasonably feasible.

COMMISSIONER LEMAN: With no period mentioned.

MR. BEATTY: Could you do that? There would have to be a term arrangement of some kind.

COMMISSIONER LEMAN: Your arrangement would be

unification.

THE CHAIRMAN: You would have to have some sort of assurance of continuation for a period.

MR. BEATTY: And as part of that scheme five thousand miles shall be abandoned? Would you also couple with that a suggestion as to wages? I believe you should not cross too many bridges at the same time. The other alternative is to leave things as they are and get the \$2,000,000 right out of wages.

THE CHAIRMAN: You would have more satisfactory control over wages under such circumstances.

MR. BEATTY: Yes.

THE CHAIRMAN: That is to say, it is essential that the members representing the Government should be indirectly named.

MR. BEATTY: I should say so, from the standpoint of partnership.

COMMISSIONER WEBSTER: Could you put in a plan of co-opting?

MR. BEATTY: Put the control in the hands of three men not selected by either party?

SIR JOSEPH FLAVEILL: You could have a Board selected in such a fashion that the men would really be trustees for the Government property in this united affair--- selected in such fashion as might be determined by the Bankers Association, the General Commerce Board, the Central Board, the Government selecting someone---

MR. BEATTY: That was the suggestion. The trouble of course is that the success of any scheme of that kind, where you are constituting a board, depends entirely on the men on it, and the only way I could suggest to get the proper men, assuming the direct method of Government



appointment was not a wise one, was to constitute another tribunal that would be nominating. But, someone would have to draw a specification.

There are two further things you would like me to do. There is your suggestion, Sir Joseph, about the division of earnings in the past.

SIR JOSEPH FLAVELLE: In considering the question--- I do not speak in a sentimental way---you will have to be bigger than the Canadian Pacific Railway. The whole complexion of matters may change, of course; the depression may pass away by degrees, but if we have a situation which is going to be more protracted than we had thought, there comes a time when the Government has not the money, because there are not only the losses but the inevitable capital expenditures. You cannot have a property as great as yours or as the Canadian National Railways that has not from time to time got to make capital renewals.

MR. BEATTY: They are progressive in a big institution.

SIR JOSEPH FLAVELLE: While ultimately there is value for the capital expenditure as far as the charge upon public revenue is concerned, the difficulty is to get the money.

COMMISSIONER LEMAN: Which brings up another question: Whether, even if the money were available that would be the best use to which it could be put.

SIR JOSEPH FLAVELLE: Still, the two railways in the country must be operated. If the roads are properly operated they ought both to do well with five thousand miles cut out. You are going to try to gradually eliminate the unnecessary service, and you are going to take the earnings of a certain time as a basis for the future. I am not attempting to give you the details. I am only thinking of the underlying principle.



MR. BEATTY: If we are left alone and things become more normal the future should not be prejudiced.

THE CHAIRMAN: And you are going to go into the question of wages too.

MR. BEATTY: Yes.

The Commission adjourned at 1.15 p.m.



ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to enquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future development of the country, met in the Judges' Conference Room of the Supreme Court of Canada, Ottawa, on Saturday, February 20, 1932.

PRESENT:

RIGHT HONOURABLE LYMAN POORE DUFF, P.C., Chairman

SIR JOSEPH W. FLAVELLE, Bart

BEAUDRY LEMAN, Esq.,

WALTER CHARLES MURRAY, Esq.,

JOHN CLARENCE WEBSTER, Esq.,

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Commissioners

Arthur Moxon, Esq., Secretary

George W. Yates, Esq., Assistant Secretary

Officials of Canadian National Railway

S.J.Hungerford, Vice President, Operation and
Construction Department

S. W. Fairweather, Director, Bureau of Economics.

C.B.Brown, Chief Engineer, Operating Department.



The Commission met at 10 a.m.

THE CHAIRMAN: Commissioner Leman, you had some things in mind, perhaps you would not mind starting Mr. Hungerford.

COMMISSIONER LEMAN: On page one of this summary you estimate your capital requirements, and you take from capital requirements your equipment retirements, and as I understand it, these retirements are charged to operating expenses.

MR. HUNGERFORD: That is right.

COMMISSIONER LEMAN: I should like to have it clearly on record how these could decrease your cash requirements for betterments and capital expenditures.

MR. HUNGERFORD: It is made up on the basis of the net increase in investment account for that period.

COMMISSIONER LEMAN: That presupposes that your net income would be sufficient to absorb those capital requirements covered by your retirements; is that right?

MR. HUNGERFORD: These retirements that are made have to be charged to operating expenses.

COMMISSIONER LEMAN: Supposing your operating expenses are beyond your income..

MR. HUNGERFORD: Well, our operating expenses have always been paid, at least since 1920, and I expect that will be so in the future, but it does not affect the net income situation. It decreases the amount that is left over after the operating expenses are paid.

THE CHAIRMAN: That is to say you charge it to operating expenses, treating the thing as a mere matter of operation. You say the revenue is sufficient to meet that.

MR. HUNGERFORD: I think you may assume that.

THE CHAIRMAN: As a matter of fact---



MR.HUNGERFORD: Yes.

THE CHAIRMAN: ----that has been so.

MR.HUNGERFORD: Yes.

THE CHAIRMAN: The difficulty is not there at all. The difficulty has arisen from other sources.

MR.HUNGERFORD: These are the natural retirements that are taken care of in a ----

SIR JOSEPH FLAVELLE: The money which has been charged to operating expenses is available, presumably, to pay this much on the equipment.

MR.HUNGERFORD: Yes.

SIR JOSEPH FLAVELLE: Your equipment retirement is 223,850,000. You assume that you have the money in the treasury to apply on the payment of the equipment.

MR.HUNGERFORD: Well, it depends on just how you look at it; but the amount is charged to the operating expenses, and it does have the effect, of course, of reducing the net income in the final analysis.

SIR JOSEPH FLAVELLE: You take that 223,000,000 and credit it to equipment account?

MR.HUNGERFORD: Yes.

THE CHAIRMAN: If it was merely a matter of operating expenses, you would take it out of operating earnings?

MR.HUNGERFORD: Yes. We have to charge it to operating earnings.

THE CHAIRMAN: I say, in point of fact, the operating earnings have been sufficient to cover it.

MR.HUNGERFORD: I think in every year.

COMMISSIONER TEMAL: We are not discussing the



propriety as far as bookkeeping is concerned.

THE CHAIRMAN: That is a fact, is it?

MR.HUNGERFORD: Well, I think so. Mr.Fairweather, there has been sufficient surplus in other years during the period under review.

COMMISSIONER LEMAN: We are not discussing the propriety of charging that amount to operating expenses. As far as your cash position is concerned, and making out an estimate as this has been worked out by Mr.Parker, you take two amounts during the five year period, and they are distributed as follows: "General Roadway Betterments, \$57,315,008; expansions, \$16,980,235; subsidiary companies and other departments, \$5,452,444; equipment, additions and betterments, \$4,090,000, new equipment, \$22,341,300." That is a total of \$27,431,300 for new equipment, less equipment retirements of \$25,850,000. These are requirements for the next five years, and they are going to be cash requirements, because there is new equipment to a total of \$27,000,000. You must suppose you are going to take in that cash from your operations to pay for new equipment. You can take that but only after you have paid your men and paid for your fuel and paid your taxes and a great many other things. As a matter of fact, that would be the last thing that you would take care of, because it is more or less a bookkeeping charge, and you have to keep your cash requirements to run your business.

MR.HUNGERFORD: Well, that may be so, in a sense. It would constitute the very first charge,---a charge before your fixed charges. You would have to pay for labour and material and all those things which are



incidental to operation first. This would be the next charge. It would be included under that general heading. On this point, Mr. Leman, unquestionably it reduces the net income to the extent that the net income is below the financial requirements of the company. It increases the deficit. A certain amount of money has to be devoted for deficit purposes. There is no question about that.

COMMISSIONER LEMAN: Would it be easier if I put the question this way: would it necessarily decrease the amount of what you would call upon the government to provide for new equipment.

MR. HUNGERFORD: Well,---

SIR JOSEPH FLAVELLE: Of course, in this statement, there is an effort made to estimate what the entire expenditure will be; there is an effort made, based upon the best judgment they can command, to show what the operating revenue will be, and what the operating expenses will be. In these operating expenses, ^{is/} this item of \$4,090,000. In that sense they will take that four million, I take it, a year, and they will credit it to equipment account.

MR. HUNGERFORD: Yes.

SIR JOSEPH FLAVELLE: And the equipment account will therefore have a bookkeeping entry which is based upon cash obtained from earnings, or produced by earnings and therefore available. It is not a bookkeeping entry separate from the whole series of entries incident to the operation during each year. In that sense they take the four millions of dollars, and it is provided because the earnings as presented show a surplus each year which



is, they hope, to this extent, available to apply on fixed charges. In arriving at that, they have deducted four million dollars a year for equipment and put it into operating expenses; and in that sense they have included it in their cash statement. That is right? I had the other view when we were talking last night.

COMMISSIONER LEMAN: They are satisfied that they will take in sufficient cash, which will not be used for other purposes, and is available for new equipment.

SIR JOSEPH FLAVELLE: I do not suppose the cash is kept separate? What really happens in the series of entries entering into the operation of the road they say \$4,000,000 a year of depreciation is going to be charged into operating expenses for these retirements; and therefore it would be available.

MR. FAIRWEATHER: Yes.

SIR JOSEPH FLAVELLE: It would not be used for paying interest on debt, because it has already been appropriated for this specific purpose.

MR. FAIRWEATHER: In other words, Sir Joseph, it would be improper to arrive at the cash requirements by adding the net deficit as indicated to the gross capital requirements. If that were done, you would be duplicating the retirement figure.

THE CHAIRMAN: Yes.

SIR JOSEPH FLAVELLE: You have reduced your position. You, as railway operators, and accountants, must be governed by what the determination of your executive is as to your class of entries. I bring to the consideration of this particular item what I have said before. I do not know whether you were present, Mr. Fairweather, and heard me say



it. I bring to it not the railway man's method, but the business man's method, and an experience over long years. Take the machinery account in an industrial plant, concerning which you have a good deal of knowledge from a locomotive and mechanical engineering side. Apply to an active growing business, as I did for thirty odd years, in an industrial plant, a ten per cent provision in the working charges each year, ten per cent upon the value of the running equipment as the annual amount that ought to be charged in the operating expenses for renewals on the existing operating plant, to keep it in as high a state of repair as the physical requirements and good sense of the management can keep it. If I set up a plant with two million dollars' worth of machinery and keep it in a high state of repair by putting \$200,000 a year into my operating charge, it keeps me busy to hold my machinery account within the two million dollar limit.

Now, I confess from that type of experience and from the examination of industrial accounts and balance sheets for the last twenty-five years, which afforded a basis for banking credit, I am shocked to think of a \$350,000,000 worth of rolling equipment being satisfied by \$4,000,000 a year depreciation. I am shocked that any body of operating administrators, call them railway administrators or anything else, could be satisfied with \$4,000,000 a year as a depreciation charge into operations for taking care of \$350,000,000 worth of rolling equipment. That is about one and a quarter to one and a half per cent.

THE CHAIRMAN: What is the exact figure?

SIR JOSEPH FLAVELLE: Five into \$23,850,000.

I am not saying this by way of an unfriendly comment. I am simply trying to show how a member of a commission considering the presentation of accounts, is affected by a presentation which runs at right angles to his experience of over forty years. Take your own experience. You had hoped you would revolutionize your motive power, as far as passenger trains were concerned, by an electric engine which would carry across the country without change. To that end you spent one and a half million dollars on experiments. There is no safety here whatever for changes that will take place in motive power. You are keeping your plant in repair, but as it reaches a state of obsolescence, you will some day have a tremendous item for which you have not created any reserve during the period you were using it.

THE CHAIRMAN: Supposing you got an approved type of engine that would come up to Mr. Loree's expectation, an engine that would quadruple the efficiency of the present engine, where would you be?

MR. HUNGERFORD: All that I can say in regard to that, Mr. Chairman, is, there has never been any such experience. It is very doubtful if we will have such a sudden transformation. It may be possible, but in the light of past events, it seems to be highly improbable. There is a constant improvement in the engines; each succeeding lot of locomotives is more efficient on the average than the ones before. There does not seem to be any possibility of any remarkable and sudden revolution in the development of the art.

SIR JOSEPH FLAVELLE: Yours would have been a revolution, if it had succeeded.

MR. HUNGERFORD: Well, that experiment was undertaken for a variety of purposes, Sir Joseph. We were endeavouring to try to develop something that would be more economical, both from a standpoint of fuel consumption, and service. That is to say, a greater amount of service per unit.

SIR JOSEPH FLAVELLE: You hoped to run locomotives from Montreal to Vancouver without change?

MR. HUNGERFORD: Yes. That would naturally be a slow development. It would not follow that the old locomotives would be immediately displaced; it would be an evolution and not a revolution. Undoubtedly, something of that kind is going to take place. There is a situation, perhaps, that is not clearly understood, in respect to the maintenance of railway equipment, and that is, under the guise of repairs, there is a constant process of reconstruction going on. Take a car, for instance. There comes a time when a car is said to be in bad order--that is the technical term that we use on the railway--when it is defective, and needs any replacement, it is said to be in bad order. That defect will consist possibly of a broken sill or two. There is nothing in the general condition of that car that warrants its retirement at that time, because of the defect; but economically, a repair is chosen. When you repair this defective part, along with other incidental work that may be necessary, in a year or two that car comes back with some other defect that involves the replacement of some other portion of it. And that is all charged to operating expenses. But it undoubtedly frequently happens in the course of time all of the original members constituting that car have been replaced and charged to operating expenses.

SIR JOSEPH FLAVELLE: That is not peculiar to the railways. That happens in every industrial plant.

MR.HUNGERFORD: Perhaps more so in connection with railways.

SIR JOSEPH FLAVELLE: No, not any more. I have repaired and renewed year after year in that fashion in order to keep my plant up to a high state of excellence.

MR.HUNGERFORD: Well, in determining this depreciation amount we are following generally the practice that is in vogue all over the North American continent.

SIR JOSEPH FLAVELLE: And railways all over the North American continent are in a terrible state because of it, among other things.

MR.HUNGERFORD: I think there are other reasons.

SIR JOSEPH FLAVELLE: There are other reasons as well, but this is one of the reasons.

MR.HUNGERFORD: Our practice in that regard is not materially different, excepting we do not accrue a depreciation entry on the whole equipment. We retire a car and charge it to operating expenses at the time of the retirement, but in general principle we are in conformity with the practice of all the other railways on the continent.

THE CHAIRMAN: Mr.Hungerford, there was an explanation given by Mr.Fairweather with regard to that which, I confess, I did not quite catch. As I understood his suggestion, it was, that in view of the vast variety of things that enter into the picture in the case of the railways, the situation was somewhat different from the case of an ordinary industrial plant. I wonder if you could develop that. I admit, in a sort of a vague way, I thought I caught the idea behind it, but I must confess I did not understand it.



MR.FAIRWEATHER: Are you speaking to me, sir?

THE CHAIRMAN: I was speaking to Mr.Hungerford and you. It is a matter entirely for you and Mr.Hungerford.

MR.FAIRWEATHER: Well, Mr.Chairman, that subject is tied up closely to the mathematical law of probabilities. Now, of course, the law of probabilities in a mathematical sense is like the laws of the Medes and Persians. The laws of chance, in an actuarial sense, as applied to human experience, is quite a different thing. Any particular case cannot be determined. For instance, it is not possible for anybody to foretell that this building may burn down tomorrow. You cannot foretell whether it will or will not.

SIR JOSEPH FLAVELLE: You take out insurance against the possibility.

MR.FAIRWEATHER: Yes. That is just the point, sir. But with regard to a great many things that happen in our human experience, you find a strange similarity between the mathematical law of probability and the experience.

THE CHAIRMAN: If your ambit is wide enough.

MR.HUNGERFORD: If your ambit is wide enough. Apply it to a particular case and it falls down completely. Apply it to a wide enough field and it becomes approximately, and quite closely approximately to the law of probabilities. And it is on that parallelism that, as Sir Joseph has said, the doctrine of insurance is based, and actuarial tables are set up, making it possible to insure against risk of life or risk of fire, or anything else.

Now, the test as to whether or not one can safely rely upon this law of probabilities as a guide, is how wide a field do your operations cover; and speaking specifically with relation of capital to industry, if all your capital



is locked up in one unit then a man who goes ahead with his operations and neglects the fact that at some time that unit of property is going to lose its usefulness, he is simply eating up his capital, and eventually he will be in a bad way. You find that in business on all sides, and Sir Joseph in his experience as a banker must have had thousands of cases like that to deal with, where a man neglected that situation. But when you have hundreds of thousands of units of all ages and all varying degrees of obsolescence, all the way from the unit ready to go into the scrap-heap to a new unit just coming out of the factory, where you have in effect a field sufficiently wide for the incidentals to be merged into a general even flow, then you have a condition where it is not really necessary for a person to accrue against an investment in a substantial amount of depreciation, so long as he knows that himself, and does not perpetuate equipment or property which is inefficient, always making this proviso: if the management will keep its equipment up to an efficient state there will be pouring in at the top all the time a sufficient amount of new to replace what is going out at the bottom. If you set up a depreciation reserve under considerations like that, and granting no other disturbing factors, you would greatly accumulate in cash or its equivalent a vast idle amount of capital; and then you are up against this proposition, that your managerial skill has to be directed towards the investment of that idle capital, and that turns you into a banker, which the ordinary business man is not; and his chance of using that vast amount of idle capital to good purpose is really a good deal less than his chance of carrying out his

own business. Consequently, a depreciation reserve in that sense would defeat itself. If you have a sufficiently broad scope, sufficiently diversified in age and type, and if you are honestly managing that property and keeping it up to scratch, you can get by with a surprisingly small amount of so-called depreciation, or retirements.

Now, the reason that our figure appears a little sub-normal is---and I have already told the commission this ---that any units we have been retiring in the past were units that were purchased before the value of the dollar depreciated. Consequently, these units were low cost units. If you take our retirements, not in a money sense, but in a unit sense, that is, in a physical sense, you will find that, having regard to the actual retirements we make, and the complete renovation which we make----for instance, you take a steel car, which is, so far as we know, a modern type even yet. Unfortunately it has the facility for rusting out in about twenty years. Now, we rebuild those cars, and when they come out of our repair shop they are brand new cars. They do not show in our retirements, but actually, so far as all intents and purposes are concerned, an old car has been retired and replaced by a brand new car. If you take the actual units retired and add to it the complete renovation we have made, you will get a figure over three per cent, as applied to our freight car equipment.

THE CHAIRMAN: Now, I gather that your major premise is this: experience shows that if this method is honestly applied, it is adequate.

MR. FAIRWEATHER: Yes, sir.

THE CHAIRMAN: And it is a question of its being



nonestly applied.

THE CHAIRMAN: That is really your point?

MR. FAIRWEATHER: Yes.

SIR JOSEPH FLAVELLE: You will increase your equipment accounts, but you have the other side of it. You have not said a word that does not apply to every industrial plant that is well operated. You have a rolling plant that is subject to the same class of obsolescence and depreciation as other active plants. But there is another side to it. You gentlemen have been administering a railway for eight years, feeling none of the disciplinary processes that belong to a privately operated concern. You do not have to worry about where the money is coming from. Up to now you have had a treasury which has been open to you, and which had the reserves of the government at its back. There has been no need to stop expenditure. If the desire was to spend money, there was no question as to where the money was coming from. The business itself has not provided a cent. If it were a privately operated concern, it would have closed up. The reserves of the government, up to the present, have been sufficient to keep it going. It has not been necessary in your case to present statements that would enable you to obtain fresh capital if you desired it. If it was desirable to spend money, the money was spent without any disciplinary relationships whatever. The accounts that are presented here make no provision for the operating conditions of the property. It does not take into account the troubles and difficulties against which there is no insurance. What I mean is you cannot insure against it as you would against fire. In a private business it must be provided for. In this case it has not



been provided for. We all know what disasters overtake a concern that makes no provision for its retirements. The condition of the railways in the United States is a concrete example.

I am not seeking to make out a case against you, Mr. Hungerford. All I am seeking is to find out what the future of the railways is, and what our position is. What is our financial position to-day? We have \$137,000,000 to pay on our national debt in the way of interest; we have \$80,000,000 to pay in pensions; we have approximately a million and a quarter a week to pay in interest and other charges on securities incident to the railway enterprise of the government.

There is no provision whatever for the gradual liquidation of the commitments. You cannot always come to the government to get money to liquidate what private people have to liquidate out of the resources of their business. There is no relief on the cash side. In thinking of the National railways as a company that will continue, we are looking five years ahead to see what the officers of the company think. It is because the railways in the United States have adopted this plan that they find themselves in the extreme condition in which they are to-day. They have let their depreciation slide because they wanted to make a showing to their shareholders.

I read with care the book which you have been good enough to give us, containing your hopes for the future; also in relation to depreciation. That is not an answer to the questions which were asked in December, Mr. Fairweather. At the end of five years your \$350,000,000 of equipment is

Mr. Hungerford.
Mr. Fairweather.

going to be 20,000,000 larger, and you are not going to have a penny laid by towards the obsolescence that may take place.

THE CHAIRMAN: I wonder what the practice is in regard to large steamship concerns like the Cunard. Do you happen to know?

MR. HUNGERFORD: No, I do not.

MR. FAIRWEATHER: Well, I think they set up depreciation because there you are operating with a vast amount of capital locked up in small units.

THE CHAIRMAN: You say there is nothing like the university.

MR. FAIRWEATHER: No, sir.

THE CHAIRMAN: Have you any way to get at the facts? Sir Joseph is satisfied that the failure to carry an accounting in accordance with the practice of private industries, is one of the causes for the condition in which the railways are to-day. I understand there is no difference of opinion about that at all. Take a big concern like Armours and Swifts, there would not be any doubt about their practice. It is contended that the condition of the railways in America is due, to a considerable extent, to the failure to follow that practice. Is there any way of testing that? Is there any way of satisfying a person like myself who knows absolutely nothing whatever about it?

MR. FAIRWEATHER: Mr. Chairman, with regard to that, I do not think I can do any better than refer to what Mr. Loree said about the matter. Mr. Loree, I think in the first meeting of the Commission gave a very brilliant discourse on the matter of depreciation.

SIR JOSEPH FLAVELL: Mr. Loree holds the view that

you do. He is a railroad man. Sometime we are going to interpose business into the railways. That is what they need.

MR. FAIRWEATHER: Mr. Chairman, in reply to your question, and to Sir Joseph's remarks, the accrual of depreciation in any amount becomes purely an academic question, if sufficient gross revenue is not being taken in over the counter to permit that money to be ear-marked.

Now, in the case of the Canadian National, we are a deficit concern. The management of the railway feel they are not responsible for that deficit at all. We--I speak for the management--are carrying that property on for a receiver, and we are doing the best job we know how. We are administering the property as efficiently as we know how. Our capital expenditures have been made as efficiently as we know how. But there is no use disguising the fact that we are, in effect, carrying on under a receivership. The government pays out money each year, which is in effect, receiver certificates, and therefore, if we did accrue ten per cent depreciation in the account, it would not effect the operation of the property one dollar. It would not effect our managerial judgment one jot or one iota.

THE CHAIRMAN: What is suggested against you is that your accounts would be a better picture of the actual situation.

MR. FAIRWEATHER: Now, that is perhaps the sole thing that might happen.

SIR JOSEPH FLAVELLE: That is the whole thing.

MR. FAIRWEATHER: The corporate deficit might be set out on perhaps a different basis than at present.



COMMISSIONER LEMAN: It would render more palpable that which you now acknowledge. That is all.

MR. FAIRWEATHER: I think it would distort the picture more than it would clarify it. That is my frank opinion, Mr. Lemman.

THE CHAIRMAN: I gather you do not admit the necessity of this, then.

MR. FAIRWEATHER: Certainly I do not admit it, sir. As a railway operator, and as a man who has been a student of this sort of thing for a number of years, I do not admit it; I have had many discussions with Mr. Hungerford on that matter. And Mr. Hungerford, based on his long experience, and even though Mr. Hungerford is present, I am going to say that in my opinion he is perhaps the most experienced and skilled operator of railways that there is on this continent. In his experience he has gone through a period with the Canadian Pacific Railway. He went through a similar period with the Canadian National, and it is his opinion that he can carry on in this manner and keep his equipment in good condition; and that the accounts of the Canadian National Railways, as they have been presented, with the retirement accounts as you find them there, have permitted him not only to perpetuate the equipment, but to increase its usefulness. In other words, he came to this property with the equipment in a certain condition. He has made certain charges to retirement. He has credited certain inefficient equipment, and so operated those railways that the equipment is in a much more efficient condition to-day. His rolling stock, both cars and locomotives, is in an immeasurably better condition than it was when he took charge. Now, if that is the case,

if not only has he perpetuated the equipment, but if he has improved it, I think the case is proven; that instead of a vast accrual of liability that should be shown in our balance sheet as an increase in deficit, as a matter of fact, if you actually get down into the thing you would find it would be a credit to equipment. Mr. Hungerford is here, and I think he will confirm what I have said with regard to his experience with the equipment; that the equipment is in a better condition; it is more useful; it has a greater usefulness than it had when he took charge. And also, the process of gradual renovation of the property is one that he went through with the Canadian Pacific Railway. Is not ^{that} correct, sir?

MR. HUNGERFORD: Yes, substantially.

COMMISSIONER LEMAN: Mr. Hungerford, speaking very candidly, I think you will acknowledge that it is a little disturbing when you just look at the figures, without knowing just what you have been talking about. You have an average capital expenditure of \$49,400,000 per year, and you have an estimate for the following five years, 1932-1936 inclusive, of \$17,300,000. Can you set my mind and conscience at rest on that feature of it?

MR. HUNGERFORD: I really think I can, Mr. Lemman. No doubt, without an intimate knowledge of what lies behind it, the ^{picture} might be disturbing. I think, perhaps, a fair analogy would be a family who decides to build a house and furnish it. During the time they are building it, they spend a lot on capital account. Then they live in the house for a number of years, with a small expenditure of capital. There are certain operating expenses, and certain depreciations. A time comes when the family is enlarged, or something of that kind,



and the house is rather dilapidated. They decide to rebuild the house and enlarge it and extend the furnishings. They do that. Now, there is a period in which there is a heavy capital expenditure. Then they are in condition to go along for a considerable number of years without any very large commitments. Now, in a very crude way that is just our picture. This property, to my knowledge, has been renovated and improved, new facilities have been provided to a point where we can justifiably anticipate the capital expenses for five years. I cannot conceive of a period within a reasonable length of time when our capital expenditures will be anything like what they have been during the last while.

COMMISSIONER LEHMAN: You are convinced it is not a question of adequate maintenance.

MR. HUNGERFORD: I am absolutely convinced of that. Let me say this, gentlemen: when we were asked to approach this question, and to deal with this question, we did it in this manner. We couldn't think of a better or a more logical way of doing it. We had statements made out showing under each engineering classification, which are pretty well reflected in your statements there, the expenditures each year for the period under review. And in addition to that we had further background----

THE CHAIRMAN: You are speaking about what years?

MR. HUNGERFORD: I am speaking about the past eight years. And I say in addition to that we had many years of experience, which is not reflected in that at all. From our

COMMISSIONER WEBSTER: Go ahead, finish what you were going to say.

MR. HUNGERFORD: From our knowledge of the situation,



we studied the probable requirements in connection with each of those engineering classifications and sub-divisions; and in the light of our knowledge of what the situation was, and what had happened, we determined what, in our opinion, would be a reasonable amount to provide for that particular item during the next five years. In other words, we averaged it all up into detail, dealt with it in detail, without regard for the total initially. And I think under those conditions the percentage of error on the whole would be very small. We did that conscientiously and carefully. I have no hesitation in saying that in my judgment, from my knowledge of the business, the property can be maintained within those limits.

COMMISSIONER LEMAN: To the present standard?

MR. HUNGERFORD: Yes.

THE CHAIRMAN: Supposing you are told that you could not have any more money for capital expenditure for the next three years, what would happen?

MR. HUNGERFORD: Well----

THE CHAIRMAN: What would be the result?

MR. HUNGERFORD: There would be a condition of chaos. It would mean this, that where in a normal year a bridge or any facility of that kind had to be replaced, and other things that we had to replace during a period, would have to be replaced irrespective of the economic situation.

THE CHAIRMAN: Let us suppose this, that you are told you are to disregard the economic situation, except insofar as it affects the possibility of danger to your passengers or workmen who are operating the trains. What effect would that have?

MR. HUNGERFORD: Just as I have outlined, sir.

COMMISSIONER LEMAN: That is where a little liquid money would come in handy.

THE CHAIRMAN: I am afraid I have not got your answer.

MR. HUNGERFORD: Well, you are speaking in relation to the safety feature.

THE CHAIRMAN: Yes. Of course, Sir Joseph has put it in such a way that there is no necessity whatever to repeat it. Of course, the economic situation is a desperate one. You can conceive of an economic situation where you would be told by the government well, there is no more money. Let us suppose it is not so severe as that. There may be money to be expended for trestles, and to keep the line in such a state of efficiency that it would permit the running of trains over it. In other words, to avoid an expenditure of money would really be criminality. Suppose the financial situation is such that there is no money for anything other than that, what would be the effect?

MR. HUNGERFORD: Well, we would simply have to carry on the best we could.

THE CHAIRMAN: What I would like to get at is this-- I do not know whether we can do it or not, I do not suppose we can do it offhand---on that basis can you give us the minimum figures?

MR. HUNGERFORD: Well, I do not think we could offhand, sir.

THE CHAIRMAN: I hardly expected you would be able to arrive at it offhand.

MR. HUNGERFORD: I do not know how we can arrive at it.

THE CHAIRMAN: Can't you do it? Of course, it would



mean a prolonged enquiry, would it?

MR. HUNGERFORD: I think it would.

THE CHAIRMAN: I am very much afraid that things are just as serious as that.

MR. HUNGERFORD: I think in general we can say this: that what is classified there as general betterments, with the exception of certain details that probably do not represent a very large proportion of the whole, represents about the money that is necessary to keep this plant safe.

THE CHAIRMAN: How much is that?

SIR JOSEPH FLAVELLE: Seventeen millions a year.

THE CHAIRMAN: General betterments for the future?

MR. HUNGERFORD: Fifty-seven millions.

THE CHAIRMAN: For how many years?

MR. HUNGERFORD: Five years.

THE CHAIRMAN: You say it is the minimum necessary to keep it safe?

MR. HUNGERFORD: Not quite, sir. There are some elements in there which are not related to safety, which could be eliminated.

THE CHAIRMAN: There is no particular object in guessing at it. I did not think you could give me an estimate of it offhand? If you deduct everything that is not absolutely essential to safety, there is a point of course there which is very essential. Neither a government nor a private company has any right to operate a train, knowing it to be unsafe. I mean to say, when you are inviting people to ride on your trains, when you know perfectly well there is a grave risk of the passenger train going through a defective trestle, then you are criminal.

I mean, it is a question of operating or not operating. There is a point below which you cannot go. There is an absolute limit. Can you get it down to that minimum?

MR. HUNGERFORD: I think that we could, approximately.

SIR JOSEPH FLAVELLE: Mr. Chairman, I must commend my friend Mr. Fairweather for his excellent exposition of a theory. I have had a good deal of experience as a receiver in the last thirty years, but I have never seen such a set of receiver's accounts. A receiver seeks, during the administration of his trust, to do the best he can with the property entrusted to him. He guards every expenditure with a jealous care, only committing himself to those expenditures which are necessary for the property. I have not seen that same care in connection with those accounts. There are certain aspects of it where the expenditure has been extraordinarily loose. I know nothing about the legal end of it, but there are certain things that you can measure, for instance, hotels, expenditure for the best equipment, the purchase of railways, the kinds of expenditures that a receiver would never think of, using your expression that you have been a receiver. You are younger than I am, and you have not been a receiver as long as I have. I have been a receiver many times, in many responsible organizations. I have carried on receiver proceedings, and I know how a receiver acts. When a receiver issues receiver certificates, it is officially money and it is charged against the property. The banker would not give him the money if he thought the property couldn't pay it. A receiver does not undertake to issue a certificate except for something that he feels



must be done, so I think you will have to drop the receiver end of it.

MR. HUNGERFORD: Except to this extent---

COMMISSIONER LEMAN: You have tried to make a real transportation system.

MR. HUNGERFORD: Yes.

MR. FAIRWEATHER: It is in that sense I meant it. I simply meant we inherited a bankrupt concern; we inherited a concern which was the despair of the country.

SIR JOSEPH FLAVELLE: It is on account of this condition that you put yourselves and everybody else in despair.

MR. FAIRWEATHER: I was associated with the purchase of the Grand Trunk Railway. I will confess frankly that I thought the railway situation in Canada was in such a condition in 1900 that nothing could be done with it. The Canadian National Railway was organized. It was perhaps favoured with an increase in business as a result of the general period of prosperity; but what happened was that the management of the Canadian National took a number of properties that had virtually broken down, and welded them into a machine that met the increase in traffic, and changed an operating deficit into an operating surplus, which ranked third on this North American continent. The fact they did not bring the property out of the red in income figures was simply due to a burden of debt inherited from previous administrations. I am frank to say, knowing the situation as it stood in 1920, and even in 1923, if anybody at that time had told me that the Canadian National management could have so improved the result that they would change an operating deficit into an operating surplus of over fifty



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millions, I would have said they were crazy. Now, whether it was acting efficiently as receivers, or whether it was acting inefficiently as squanderers of money, the fact remains that---I have not had the years of experience of others, but ^I have tried to replace that by a study of all the records I could lay my hands on---I do not know of any case where there has been such a reversal as took place between 1920 and 1928.

The terrific slump that came along in 1930 and which is continuing in 1932, of course, has created quite a problem; but I make those remarks as one on the sidelines, because I did not take any part in the actual renovation of the property. I was the one who stood on the sidelines and observed, and therefore I think I can say this without offense. I think that it is pretty nearly the correct picture, and I thank you, Mr. Leman, for your having said that. I think it is true.

COMMISSIONER LEMAN: Mr. Hungerford, the rate making basis in this country is the C.P.R. experience, is it?

MR. HUNGERFORD: I beg your pardon.

COMMISSIONER LEMAN: The C.P.R. is used as the yardstick in the making of rates, is it not?

MR. HUNGERFORD: Well, I suppose in a general way, yes.

THE CHAIRMAN: By the Board of Railway Commissioners.

COMMISSIONER LEMAN: That is what is being said.

SIR JOSEPH FLAVELLES: You mean the Crow's Nest agreement?

COMMISSIONER LEMAN: No; I mean in applications made before the Board of Railway Commissioners. It is based upon



the C.P.R. experience; is that right?

MR. HUNGERFORD: I would say it is right to a certain extent.

SIR JOSEPH FLAVELL: I suppose it has been arrived at for the purpose of giving relief to long distance hauls on the part of original producers.

MR. HUNGERFORD: That is the fundamentals of the situation.

THE CHAIRMAN: I suppose there is no question about that. To a certain extent the low rates have arisen from the fact that it was felt the C.P.R. could stand it. I do not mean that it is necessarily a governing factor in all cases.

COMMISSIONER LEMAN: This was a question I asked Mr. Parker this morning: if you have a yardstick as far as earnings are concerned, can you apply a similar yardstick as to values? That is to say, as measured by the C.P.R. standard, can you generally establish the value of the Canadian National Railway system, based on earning power, or----

THE CHAIRMAN: Or a value based on the organization.

COMMISSIONER LEMAN: ---based on the comparative relative physical value. You are stating from time to time that you are an over-burdened property, that you have a billion and a quarter dollars of fixed securities in the hands of the public. Now, is there that value in your property? I am not aware that we have anything before us to that effect.

THE CHAIRMAN: We have no comparative value.

COMMISSIONER LEMAN: Is not that a field that we should



explore.

THE CHAIRMAN: The difficulties that arise when you enter into that subject are enormous. There is no subject on which there has been so much difference of opinion. Experts have been trying for thirty years to work out a principle, and no principle has yet been arrived at. It is an enormously difficult thing to get at a principle. I think the practical judgment of a railway man would be the best basis on which to work. Supposing there were a competent railway man who had the money to take this enterprise over, how much would he give for it?

SIR JOSEPH FLAVELLE: Yes.

THE CHAIRMAN: That is what arbitrators have to do all the time. Nobody can lay down a rule for it.

COMMISSIONER LEMAN: If we could have a relative figure, it would be better than nothing. Personally I should like to have a figure, because who can say that the C.P.R. is worth one billion dollars.

THE CHAIRMAN: But you can say that the C.P.R. is worth "A" and the C.M.R. is worth two-thirds of "A", or one and a half times as much as "A".

MR.HUNGERFORD: That is the difficulty. You do not know from what point to start.

COMMISSIONER LEMAN: If you do not know, how are we to know?

THE CHAIRMAN: I suppose, if a practical man were taking it over, he would look at it from an earning point of view.

MR.HUNGERFORD: I think he would, Mr.Chairman.
May I ask this, Mr.Chairman: at the time these constituent

roads failed, and bankruptcy proceedings took place, on what basis would your capital structure valuation have been established?

THE CHAIRMAN: If bankruptcy had taken place?

MR. HUNGERFORD: If we had gone right through bankruptcy.

THE CHAIRMAN: If it had gone into bankruptcy, I do not think anyone would have troubled his head about the capital structure; it would have been a question of property.

MR. HUNGERFORD: It would have been reorganized on some basis.

THE CHAIRMAN: It would depend upon the value.

MR. HUNGERFORD: That is, the reconstruction would have been based upon the earning power, or the immediately prospective earning power of the company.

THE CHAIRMAN: Supposing you went through bankruptcy to-day, what would happen if somebody would buy who had the money to buy?

COMMISSIONER LEMAN: They would look at the yield.

THE CHAIRMAN: What would he look at?

MR. HUNGERFORD: He would look at what he could get out of it.

THE CHAIRMAN: Surely he would.

MR. FAIRWEATHER: Railways are a drug on the market.

MR. HUNGERFORD: I think the basic reason for taking the valuation scheme in the United States was for the purpose of establishing private rights.

THE CHAIRMAN: I have read some judgments on the subject, and they were not convincing. I thought they



were arbitrary.

SIR JOSEPH FLAVELLE: There comes a time when somebody has to exercise arbitrary action. You would be unfortunate if you had to dispose of the property under existing conditions.

COMMISSIONER LEMAN: It would be disastrous.

SIR JOSEPH FLAVELLE: On the other hand, the country is in such a position, by reason of the demands it is called upon to meet in the way of interest on obligations in the hands of the public, capital expenditure of the railways, and maturing obligations, that if there came a time when it would be difficult to borrow money, this property would have to be sacrificed.

MR. HUNGERFORD: Sir Joseph, that would suggest a period of deferred maintenance; that is all it would mean. It would have to be postponed to the future.

SIR JOSEPH FLAVELLE: Deferred maintenance is all over this continent. It has not been so with you, because you have had a large treasury.

MR. HUNGERFORD: The reason for the large expenditures during the period under review was very largely due to the fact that there was deferred maintenance before.

SIR JOSEPH FLAVELLE: Part of it was.

MR. HUNGERFORD: If the Canadian National Railways at the beginning of the period under review had been in a normal condition in respect to equipment, there would have been no need to spend anything like the amount of capital that was spent.

SIR JOSEPH FLAVELLE: It is rather interesting to



observe that the expenditures have been augmented during the latter years of your period.

MR.HUNGERFORD: What is that, sir?

SIR J. SEPH FLAVELLE: The expenses have been augmented during the latter years of your period.

COMMISSIONER LEMAN: That would be because of supply work, terminals and extensions and so forth.

SIR JOSEPH FLAVELLE: It is a question of terminals, extensions and all sorts of things.

MR.HUNGERFORD: It went into hotels---

COMMISSIONER LEMAN: I do not think very much of the seventeen millions applies to that, Mr.Hungerford.

MR.HUNGERFORD: No.

SIR JOSEPH FLAVELLE: We are discussing the property, and these are the things that have happened. There is no question about a sincere desire on the part of the officers of the company to make a profit. There is no doubt about that.

MR.CHAIRMAN: I think, Mr.Hungerford, the pressing thing in regard to the subject we are now speaking about, is how much can you cut off without endangering the safety of the people who are working the machine, and the people who are being carried by it. When I say "endangering" I mean seriously endangering. There is some risk people have to take

COMMISSIONER LEMAN: You mean in regard to the fifty-seven millions?

THE CHAIRMAN: Yes.

SIR JOSEPH FLAVELLE: You see, Mr.Hungerford, what the country presumably will be confronted with, is reaching

a decision whether this railway enterprise must be merged with another enterprise so as to save large sums of money. A decision of that kind politically, and to many others from a personal standpoint, is uncomfortable. That situation may arise, and that may be the only way out. Let me pause to say this to the senior economist, and to the senior operating administrator: I have no doubt, if you had to do this over again, there would be a good deal of co-operation between the two railway enterprises in an effort to reduce expenses.

MR. HUNGERFORD: That is, if we had to live the eight years over again?

SIR JOSEPH FLAVELLE: Yes, if you had to live the eight years over. Now, when we have come to a time where the question asked is, what is to be done, what is the actual leadership you have given in what you hope might be accomplished, assuming the two properties were run with a greater spirit of co-operation? You have indicated what you hope may be established, as an economist, over a period of years. Can the government take care -- I do not know whether it can or not; I am not speaking for the government because I do not know its views --- of the independent operation of the railways, or do the exigencies of the situation require those two properties to be thrown together and administered under one management? Is it possible to administer those great properties, consisting of thousands of miles of road that are not needed, as two separate entities, as they are at present? Has there been wisdom judgment, and good sense developed in the properties during those years whereby out of the experience gained it is



possible to present a working basis for the two properties? The obligation is on the treasury to pay the money for which this country is responsible, and that obligation is a very heavy one. What are we going to do in the circumstances? Are we going to do something which will arouse deep feeling, concern and anxiety, and out of the necessity operate the systems as one? Has it been shown that you can administer those roads separately, and if you are given a reasonable time for the return of normal conditions, that the earnings would so increase that the railway would become an asset rather than a liability? In that regard I should look for a revision of the freight rates. If the government of the country believes that certain geographical difficulties affect the people who are producing primary products, and that they should receive assistance, I should hope to see a principle established whereby the government would provide for that. Let parliament face the responsibility on its own account. Don't load it on the railway executive, and ask them to take a rate that is not profitable. Let it be faced as a national policy, in which parliament would provide the money to subsidize the railways for a rate that is not a fair one., if it can be established by a competent body that the rate is not a fair one. These are some of the difficulties that must be solved. In a situation of this kind we must, of necessity, turn to the officers of the company for the major judgment which comes from experience. It is certain that we cannot go on as we are if we are to operate those two systems of railways. I should think everybody has come to the conclusion that something



must be done to reduce the charges upon our resources. No matter what the government may do, it will not be relieved from paying interest on outstanding obligations. As far as the securities in the hands of the public go, the government has guaranteed to pay the interest, and there can be no relief, they must go on paying it.

MR. HUNGERFORD: With respect to the question of the abandonment of lines, we start off with a fixed charge that cannot be limited. Every time you abandon a section of railway on which there is any considerable development or settlement, you lose a certain amount of business and revenue that accrues to that section directly and to other parts of the line indirectly.

THE CHAIRMAN: Mr. Loree gave us an analysis that he made, I do not know whether I am quoting it correctly or not, but he said that five per cent of the ton mileage was carried by forty-five per cent of the railway mileage.

COMMISSIONER LEMAN: Forty per cent of the railways carry five per cent of the traffic.

THE CHAIRMAN: That seems a very extreme condition.

COMMISSIONER LEMAN: Ten per cent of the mileage carries forty-two per cent of the tonnage.

MR. HUNGERFORD: We have that condition of extremes. In certain sections of the system there is a high density of traffic, and in other sections there is a very very low density of traffic with gradations between; but all of the lines represent some value to the community as a whole.

THE CHAIRMAN: Is it absolutely certain that they represent some value to the community as a whole?

MR. HUNGERFORD: There is no question at all, it was a ghastly mistake to build so many parallel lines. I think it is rather questionable whether there was a mistake made in building branch lines, if you view the question from the standpoint of developing the country. The country has developed, and I think it is fair to assume that the country would not have developed, could not have developed without the provision of that service. It is unfortunately true that where a great part of these main lines run, there is no very great opportunity for development. You must distinguish between main line development and branch line development. There has been a certain amount of development and the question arises, and it becomes a national question, not a railway question, that is, from my point of view, what is to be done.

THE CHAIRMAN: Supposing you look at it from a railway point of view. Forget the national concern at the moment. You know the great national concern is economy. Now, look at it from a purely railway point of view---

COMMISSIONER LEMAN: Take branch lines in the Maritimes.

THE CHAIRMAN: On many of those lines there are mills, supposing you compensate them, if necessary---

MR. HUNGERFORD: Well, ----

THE CHAIRMAN: There is no other public interest--- I mean to say, if you have a parallel line that will take care of the traffic, that is the only interest, is it not?

MR. HUNGERFORD: Yes.

THE CHAIRMAN: Apart from the question of the possibility of future development in the area.



COMMISSIONER WEBSTER: Business men in the Maritimes tell us they welcome the abandonment of about 1000 miles of road in that area.

MR. HUNGERFORD: I do not know exactly that they would. I think I said before that I had endeavoured, along with other officers, to get rid of unprofitable sections of line, for a period of years, and due to the opposition of the public and of representative bodies, we found it impossible to accomplish anything but a very very little.

THE CHAIRMAN: I quite understand. Put yourself in this position. Assume that the public can be convinced that economies must be brought about, owing to the emergency condition in which we find ourselves. One appreciates the position in which the Canadian National Railways finds itself with regard to public opinion. There is no question about that.

MR. HUNGERFORD: I think, Mr. Chairman, that applies more or less to privately owned railways too. They are subject to the influence of public opinion and regulatory bodies.

SIR JOSEPH FLAVELLE: It seems clear to me that the railway situation, under existing financial conditions in the country, is like a good many other things. There are a great number of people in Canada to-day who will have to recast their standard of living. We may have to go back to some of the simple conditions that prevailed in the past. I remember in my earlier days--we won't go so far back as that--we used to turn out and help the firemen. The wood was piled alongside the tracks, and in order to permit us to get along

on our journey we would all turn out and help the firemen to pile the wood in the tender. Is it not probable that the ten millions of people of this country may have to recast their standards of living including railways? Of course, the interpretation of that recasting must rest with the men who are administering them. In other words, you have been administering a series of bankrupt properties, which were in a bad condition. You have brought them into a working condition, which has cost a large sum of money. That sum of money has gradually accumulated to a point where, apparently, the resources of the country cannot take care of a continuation of that sort of thing, without the remedy of earnings to help. At the moment the earnings are not available, because business is not available. It is too big a machine for the business that is being carried. Now, undoubtedly, putting them together and operating them as one is a remedy. Yet, one would like to feel that every method has been examined before we decide upon that sort of alternative.

MR. HUNGERFORD: I think I expressed this idea before, that in my judgment at least, it is possible to realize about all the economies by separate ownership that would be realized by amalgamation, and I am convinced of that.

COMMISSIONER WEBSTER: I did not hear that.

MR. HUNGERFORD: I think it is possible to realize practically the same economies with separate operation, and proper assistance to enforce co-operation, and things of that kind, that can actually be realized by amalgamation.

THE CHAIRMAN: With proper what?

MR. HUNGERFORD: I said proper assistance. I was thinking in terms of the suggestion that has been offered to you in different quarters, that some kind of commission be given power to enforce measures, to exercise a restraining influence upon expenses and things of that kind.

Now, with that assistance, my judgment is that in the final analysis about as much can be realized under one condition as the other. I think I said before I am convinced, after a great deal of reflection, that if the element of competition was eliminated altogether, I think it would be quite impossible to maintain that spirit of enthusiasm and initiative and energy, which is necessary to make the thing go.

THE CHAIRMAN: The revenues would constantly fall off consequently?

MR. HUNGERFORD: Railroad business is peculiar in this respect, that each bureau of the actual work is performed without direct supervision. You must depend upon the loyalty and enthusiasm and honesty of the men themselves if you are going to get good results. Now that feeling of enthusiasm on both roads, not only the Canadian National, but on both roads, has been fostered, stimulated and maintained through the spirit of competition. If you eliminated that, as it would be eliminated by any form of drawing the roads together, you are imminently going to destroy that, and the losses that will come about will be very serious, in my opinion, and will off-set any apparent advantages that might accrue from an adoption of the policy.

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THE CHAIRMAN: We have had before us some comparative tables of cost. I do not want you to go into those off-hand, because I do not think it is a fair thing to put to you in that way. For example, we have such discrepancies as these: salaries, expenses, general offices of the Canadian Pacific for the year 1930 roughly speaking, \$500,000; for the Canadian National, \$1,100,000. What I am wondering about is this, following up your suggestion and proceeding upon your hypothesis that railways should be continued as separate systems, I am wondering if there is any good reason why that discrepancy should exist.

MR. HUNGERFORD: A considerable amount of the discrepancy is due to the fact that one machine is very much larger than the other.

THE CHAIRMAN: It is one-third larger in mileage. This discrepancy, roughly speaking, is about one hundred per cent.

MR. HUNGERFORD: It depends on what is included in that, if the figures are comparative.

SIR JOSEPH FLAVELLE: They are taken from the published statements.

THE CHAIRMAN: Of course, it may be that they do not cover the same field. Then, general officers, salaries, and expenses of clerks and attendants. There is a difference of one hundred per cent there. One is, roughly speaking, two millions, and the other four millions.

MR. HUNGERFORD: Well, I don't know. I am afraid I cannot discuss that intelligently, because I do not know what is included in it.

THE CHAIRMAN: I do not think it is fair to ask you

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to go into it now. I wonder if you could go into that later?

MR. HUNGERFORD: Certainly.

THE CHAIRMAN: There are operating expenses, for example, station services, Canadian Pacific, roughly speaking, thirteen millions, and the Canadian National eighteen and a half millions. You see that goes far beyond the discrepancy in mileage. In the total operating expenses, if you take out the express service, roughly speaking, there is a discrepancy of seventy-five per cent in one case, and seventy per cent in the other. Now, I do not think it is right to ask you to comment on that off-hand. It may be there is some explanation. It may very well be that they do not cover the same field. I wonder if you could go through that and make it up? Mr. Moxon will send you the headings, and you can get the figures from your accounts and make such comments as you feel disposed to make.

MR. HUNGERFORD: There is only this about that, Mr. Chairman. In order to make an analysis we must know the premises applicable to the other company. We can analyze our own figures.

THE CHAIRMAN: I suppose you can take the published figures.

MR. HUNGERFORD: They do not tell us much.

MR. FAIRWEATHER: From my knowledge of the Canadian Pacific organization and our own, so far as all of the operating offices are concerned, they occupy identical positions on the two roads. That is to say, they generally are the same, I can visualize a situation in respect to

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which the operating officers even run into other departments. It seems to me that the figures that have been set out must be limited to the chief railway officers of the Canadian Pacific, whereas we have put in officers of all kinds.

THE CHAIRMAN: For that reason I do not think there is very much use in pursuing it now.

COMMISSIONER WEBSTER: Would double-track mileage have any effect on it?

MR. HUNGERFORD: Not a great deal, sir. In speaking of economics, there are certain things that can be done. With sufficient public support, trains can be taken off.

THE CHAIRMAN: Let us assume that you have public support. That is to say, if it has to be assumed in devising ways and means of doing what seems to us to be absolutely necessary. We cannot be concerned about what Mr. So-and-So up in the northwest is going to say about this matter, or what some newspaper is going to say. We have to deal with this problem on a business basis, just as if we were advising a private proprietor.

MR. HUNGERFORD: You appreciate the fact, of course, that a great many economies have been put in force in the last two years on both lines?

THE CHAIRMAN: There is no doubt about that.

MR. HUNGERFORD: We have got down to this point now; that anything more that is done is going to hurt the public.

THE CHAIRMAN: Do you mean it is going to be injurious to the property?

MR. HUNGERFORD: Not necessarily, sir. It is going to injure the public, hurt the public.

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THE CHAIRMAN: In what sense?

MR. HUNGERFORD: Well, if branch lines are abandoned, it is certainly going to hurt individuals there in that section.

SIR JOSEPH FLAVELLE: You mean they would have to drive farther to reach an elevator to store their wheat, or a station where they would take passage on a train?

MR. HUNGERFORD: Conceivably they might have to pull out of the community altogether.

SIR JOSEPH FLAVELLE: It depends upon the pressing character of the operation.

MR. HUNGERFORD: When it comes down to train services, I question very much if a great deal more can be done without a complete withdrawal from certain sections and lines.

SIR JOSEPH FLAVELLE: Did you ever consider the possibility of operating separately and pooling certain things?

MR. HUNGERFORD: Yes.

SIR JOSEPH FLAVELLE: Take, for instance, the train that is going to Toronto this afternoon. There is one train at one o'clock, and another at four o'clock, one is yours and the other is the Canadian Pacific's.

MR. HUNGERFORD: That is one of the features.

SIR JOSEPH FLAVELLE: Is it not possible for one train to serve that line; it will carry a great many more passengers than will be available this afternoon.

MR. HUNGERFORD: That would serve the purpose perfectly, so far as Ottawa and Toronto is concerned.

SIR JOSEPH FLAVELLE: On the trip down from Toronto the night before last I was the only passenger on the compartment car.



COMMISSIONER LEMAN: If passenger business were pooled, it might help a great deal.

MR.HUNGERFORD: We never had any objection to that.

COMMISSIONER LEMAN: Have you thought about that feature?

MR. HUNGERFORD: There is no objection, between competitive points.

THE CHAIRMAN: May I put it this way: it is no secret, I suppose, that the Canadian Pacific Railway officials are convinced that going on under the present system means disaster. What I am trying to get at is this, to get everything that you can give us to indicate the possibility of further economies being effected without entering into an amalgamation. That is what I am concerned about, and I think in that I speak for all members of the commission, because we want every point of view brought out in the strongest possible way, as long as it is a reasonable one.

COMMISSIONER LEMAN: With business on the 1931 basis is there any other alternative, providing parliament decides to leave things as they are? Is there any other alternative than to have the people of this country assume an additional debt of \$500,000,000?

MR.HUNGERFORD: I do not quite follow you, Mr.Leman.

COMMISSIONER LEMAN: Well, on the basis of the 1931 earnings, we will require fifty-five millions a year to pay the interest on the public debt, that is \$275,000,000; capital expenditures, \$86,000,000, and securities maturing to the extent of \$136,000,000, which will have to be re-financed. That will total up to \$497,000,000 in the next

five years. If business does not improve, the picture will be even worse.

SIR JOSEPH FLAVELLE: That is giving credit to the two railway systems the increased earnings that will take place.

COMMISSIONER LEMAN: No; it is on the basis of 1931.

MR. HUNGERFORD: I think it might be helpful to look over some of the fields in which economies might take place, to see how they are affected by the two schemes, or would be affected by the two schemes. Take the question of branch lines abandonment. It seems to me that it is quite as possible to abandon branch lines under conditions of separate management as under conditions of amalgamation.

COMMISSIONER LEMAN: I do not see why that could not be so.

MR. HUNGERFORD: I do not see why that situation should be affected at all.

SIR JOSEPH FLAVELLE: It should be possible, if the corporations worked together in a friendly spirit to do it under separate management as if they were under one administrative body.

MR. HUNGERFORD: Not quite, sir. I was speaking about the abandonment of lines in particular. It is a matter of individual action, after all. The question of whether we abandon a branch line or the Canadian Pacific abandons a branch line, is not a matter of relation at all, as far as I can see.

SIR JOSEPH FLAVELLE: What do you mean?

MR. HUNGERFORD: It is quite possible to make provision under those conditions, to operate on the other company's



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lines, if necessary, without any amalgamation at all; because it is common practice to secure running rights from other companies.

SIR JOSEPH FLAVELLE: May I ask this: if your people and the Canadian Pacific people sat down and went to work on the problem, something could be done in that direction.

MR. HUNGERFORD: Yes. You have a list.

SIR JOSEPH FLAVELLE: We have it from one company's standpoint. We have nothing from you indicating what you think of the matter. You indicated certain things that you hoped for in your forecast of the future.

MR. HUNGERFORD: A large measure of economy requires individual analysis and consideration, and much could be arranged between the companies in that respect. Where there is an honest difference of opinion, it would have the effect of preventing its being put into effect. If it was a reasonably desirable thing to do, if somebody else other than the officers of the company were to pass upon it, it could be made effective.

THE CHAIRMAN: It occurred to me that if there were a board appointed to consider such matters, that might perhaps be just as effective. The board could be constituted after the manner of a conciliation board, taking public hearings and expressing its view, just as the wage conciliation board does. Compulsory co-operation does not sound a very promising thing. How does that strike you? I merely want to get your idea as to how you think it would work.

MR. HUNGERFORD: well,---

THE CHAIRMAN: Supposing there was a difference of opinion, and you submitted that difference to a competent board---I do not think there is such a board in existence to-day, because we would have to have competent railway men on it---and had an expression of opinion by the board, without any compulsory order.

MR. HUNGERFORD: Well, Mr. Chairman I think that would have a valuable influence. I am not sure whether it would work out in practice. I think the suggestion is well worth a careful thought.

THE CHAIRMAN: I wish you would think about it.

MR. HUNGERFORD: I shall be glad to think about it, because it is quite a new thought for me. I quite realize that compulsory co-operation savours somewhat of an invasion of private property rights to a certain extent. I cannot speak in regard to the law, but the Board of Railway Commissioners exercises authority---

THE CHAIRMAN: Undoubtedly.

MR. HUNGERFORD:----of that general character at the present time, and it is not regarded as objectionable.

THE CHAIRMAN: I suppose, in most cases, looking at things in the concrete, there would be questions as to who should get running rights over certain lines, and into certain places. The Board of Railway Commissioners are making orders like that all the time.

MR. HUNGERFORD: Yes.

The Commission adjourned at 1.15 p.m.



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